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Why the arrest of the country's biggest businessman bodes ill for Russia ... More on this week's lead article

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Politics this week

Oct 30th 2003
From The Economist print edition

Counting the bodies

EPA

Iraq suffered one of its worst bouts of terrorist bombings since the collapse of Saddam Hussein's regime in April. On October 26th a rocket hit the hotel in Baghdad where the American deputy defence secretary, Paul Wolfowitz, was staying, killing an American lieutenant-colonel on the floor below. The next day, on the first morning of Ramadan, the Muslim month of fasting, four suicide bombs hit the Red Cross headquarters and at police stations in Baghdad. In all, at least 40 Iraqis and one American soldier were killed.

See article: Baghdad, city of bombs

After the attacks in Iraq, the UN said it would withdraw its remaining international staff from **Baghdad**. The Red Cross said it would reduce its presence, too. Colin Powell, America's secretary of state, had urged the UN to stay on.

See article: Rebuilding Iraq

Three **Israeli** soldiers, two of them female, were killed by Palestinian gunmen at a Jewish settlement in the Gaza Strip, where a Palestinian was killed by Israeli soldiers.

See article: Senseless in Gaza

The new **Palestinian** prime minister, Ahmed Qurei, said he would stay in office after the one-month term of his emergency cabinet expires later this month. Israel's prime minister, Ariel Sharon, complained about comments from his army chief of staff, suggesting that Israel had contributed to the fall of Mr Qurei's predecessor by making too few goodwill gestures.

Zimbabwe's last leading independent daily newspaper, the *Daily News*, was again shut down after it had reappeared for a day on news-stands for the first time since its closure six weeks ago.

Nigeria agreed to hand 33 border villages in the north-east of the country to neighbouring Cameroon.

Political prisoner

In the latest sign that Russia's president, **Vladimir Putin**, will not tolerate political opponents, Mikhail Khodorkovsky, chief executive of Russia's biggest oil firm, Yukos, was arrested and thrown in jail. Prosecutors have laid charges of fraud and tax evasion against him. But his actual offence was to finance opposition parties. Financial markets reacted badly to the news.

See article: After the arrest of Mikhail Khodorkovsky

Bulgaria's ex-Communists, now named the Socialist Party, won a big victory in the country's local elections. The vote was a sign of disapproval of the government led by ex-King Simeon Saxe-Coburg. But the election also saw the lowest voter turnout since the fall of communism 14 years ago.

Gerhard Schröder's popularity continues to wane. The German chancellor's Social Democratic Party lost its place as the largest party in local elections in the state of Brandenburg. The Christian Democrats came first.

Britain's floundering opposition Conservatives ditched their lacklustre leader, Iain Duncan Smith. His successor, probably in an uncontested election, is set to be Michael Howard, a tough, brainy right-winger.

See article: A Tory putsch succeeds

Friends in the North

North Korea said it would consider an offer from America of a written security assurance in return for dismantling its nuclear programme. China's second-highest leader, Wu Bangguo, arrived in North Korea in an attempt to find a solution. China, one of the North's last remaining allies, gives the reclusive state most of its food and fuel.

The **Taiwanese** government is preparing legislation to legitimise gay marriage. If the law is passed, Taiwan would become the first Asian country to recognise same-sex marriages.

Australian peacekeepers will begin leaving the Solomon Islands after helping to restore order to the Pacific state, which was on the brink of civil war in July.

India proposed a new bus link across divided Kashmir. Pakistan said it welcomed the idea—but demanded UN supervision, a deal-breaker for the Indians.

Scorched earth

EPA

Wildfires, described as the worst natural disaster in southern California's history, continued to burn huge tracts of land. At least 16 people died, mostly in San Diego County, and over 2,000 houses were destroyed. The fires, driven by winds, forced the evacuation of thousands of residents.

See article: The California wildfires

President George Bush said that the White House is co-operating with an independent commission investigating the events surrounding the **September 11th** terrorist attacks. His remarks came after the chairman of the commission, Thomas Kean, said that he would not rule out issuing subpoenas to obtain sensitive documents.

See article: White House secrecy

New York City revised down the number of deaths in the September 11th attacks to 2,752. Around 40 people were removed from the toll, as no proof has been offered that they were in the buildings or even existed.

Twelve states filed a lawsuit against the **Environmental Protection Agency** claiming that the administration has weakened pollution and public-health controls. Mike Leavitt was confirmed by the Senate as the EPA's new chief.

Defeat all round

Álvaro Uribe, **Colombia's** conservative president, suffered two setbacks. Most, and perhaps all, of the proposed fiscal and political reforms in a complex 15-point referendum were defeated because turnout fell just short of the 25% required. And in local elections, Mr Uribe's candidates were defeated in the main cities; Lucho Garzón, a moderate leftist, was elected as mayor of Bogotá, the capital.

See article: After Colombia's votes

The world's Socialist parties, meeting in Brazil, called on Fidel Castro, **Cuba's** Communist leader, to release political prisoners and implement democratic reforms.

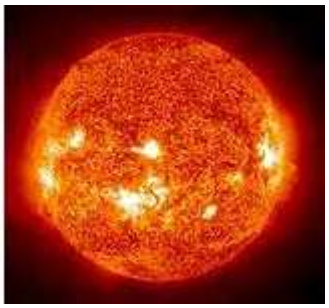
Rioting broke out in a poor area of Montego Bay, **Jamaica's** tourist capital, after two elderly men had

been shot dead by police.

Flares are back

AFP

Unusual sunspot activity is throwing huge **solar flares** into space. Pessimists predict damage to communications satellites and power grids. Optimists predict spectacular displays of the Northern and Southern Lights.



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Business this week

Oct 30th 2003
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Fleet-footed

Bank of America announced that it would pay $47 billion in shares to buy **FleetBoston**, creating America's second-largest bank, in terms of assets, behind Citigroup. The deal will give Bank of America the foothold in retail banking in New England that it previously lacked.

See article: A Titan or a Titanic price?

America's second- and third-largest tobacco companies said that they would form one business worth some $6.2 billion. **R.J. Reynolds** and **Brown & Williamson**, the transatlantic arm of British American Tobacco, have both suffered recently because of fierce competition from discount cigarette firms. Reynolds also announced a loss of $3.5 billion in the latest quarter.

In German hands

Beiersdorf, maker of Nivea cream, stayed in German hands after a consortium led by **Tchibo**, a German coffee company, bought a 40% stake from Allianz, a German insurer, for *euro*4.4 billion ($5.1 billion) to add to the 30% it already owns.

Procter & Gamble, which was also keen to grab Nivea, revealed that it was doing well anyway. The American consumer-goods conglomerate said that third-quarter profits were up by 20%, compared with a year ago, to $1.8 billion.

Cadbury Schweppes announced plans to boost profitability. The British confectionery giant said that it would jettison 55,000 staff, around 10% of its workforce.

See article: The big candyman

The European Commission approved plans to regulate the **chemicals industry**. Environmentalists moaned that the regulations were too soft; the chemicals industry complained that competitveness could be harmed.

See article: European chemical regulation

Put on hold

Fiat and **General Motors** agreed to delay by a year the enforcement of a put option that would oblige the American car giant to buy the 80% of the ailing Italian industrial company's giant's car arm that it does not already own. GM, keen not to acquire the loss-making car firm, has said that Fiat's method of restructuring it invalidates the deal.

Investigations widened into improper trading of American **mutual funds**. Charges were brought against Putnam Investments, a big fund-manager. Investigators were also looking into the actions of the chairman of another firm, Strong Capital Management.

AngloGold sucessfully bid $1.4 billion for Ghana's **Ashanti Goldfields**. Ghana's government and Ashanti both preferred a South African buyer despite a higher bid from Britain's Randgold.

ABB sought to repair its battered finances with a $2.5 billion rights issue. The embattled Swedish-Swiss engineering firm also announced a loss of $279m in the third quarter.

Search engine of growth

Google, the world's foremost internet search engine, was reportedly planning to turn its worldwide popularity into cash. Some think that an initial public offering, which may value Google at some $15 billion, would signal the beginning of a dotcom renaissance. Others see a final burst of the overconfidence of the dotcom era.

See article: The next hot internet stock

Sony said that it would axe 20,000 jobs in the next three years, some 13% of the total, as part of a restructuring effort. The struggling Japanese electronics firm also said that it would enter a joint-venture with South Korea's Samsung to develop LCD televisions.

See article: Nobuyuki Idei and Sony

Microsoft settled some more lawsuits. The software giant agreed to restitution worth some $200m to five states and the District of Columbia to end a class-action antitrust suit. It has now settled with ten states. Lawsuits from five others remain, as well as an antitrust suit from the EU.

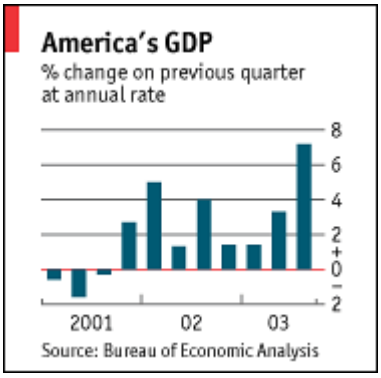
Out of court

A mistrial was declared in a case against **Frank Quattrone**, a formerly high-flying technology banker, after the jury failed to return a unanimous verdict. He was charged with obstructing justice in the investigation into the allocation of hot technology shares by his employer, CSFB. Prosecutors are undecided whether to press for a retrial.

HSBC, one of the world's biggest banks, said that it would pay $1.3 billion for Bank of Bermuda, the island's largest. HSBC's acquisition is part of a push into the profitable field of wealth management for rich clients. **Barclays**, Britain's third-biggest bank, said it would buy Gerrard, a broking firm, for £210m ($357m).

America's new boom

America's economy expanded by a remarkable 7.2% in the third quarter at an annual rate, the fastest since 1984. The bumper growth rate was fuelled by a spending spree as Americans took advantage of tax cuts and cheap credit, and by a pick-up in business investment.



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Russia

Vlad the impaler

Oct 30th 2003
From The Economist print edition

Why the arrest of the country's biggest businessman bodes ill for Russia

Get article background

AT FIRST blush it sounds routine, even praiseworthy. An extremely wealthy businessman is suspected of committing fraud and tax evasion. Prosecutors labour for months to assemble their case, pulling in some of the businessman's closest associates for questioning along the way, before finally deciding to arrest and charge their real target. It is just the sort of thing that Americans might see as welcome evidence, post-Enron, of a zeal to tackle corporate crooks and to clean up capitalism's messes.

This is not, however, George Bush's America; it is Vladimir Putin's Russia. The businessman, Russia's richest, is Mikhail Khodorkovsky, the chief executive and biggest shareholder of Yukos, Russia's largest oil company, who was spectacularly seized on October 25th aboard his own aircraft in Siberia. President Putin insisted that the arrest was a normal function of the country's judicial system, in which he neither could nor should interfere. But everybody knows that, in Mr Putin's Russia, the taking of such a big fish has nothing to do with business misdeeds, still less with justice, and everything to do with politics and the Kremlin's control. And that is why Mr Khodorkovsky's arrest, along with the rumoured departure of the Kremlin's chief of staff, Alexander Voloshin, one of Mr Khodorkovsky's sympathisers, are so ominous (see article).

This is not to say that Mr Khodorkovsky, and indeed any of the country's “oligarchs”, are as white as Siberian snow. In the post-communist chaos of the early 1990s, many murky bargains were struck, culminating in a raft of dodgy privatisations and the notorious “loans-for-shares” deals done under the presidency of Boris Yeltsin. Out of these emerged a small group of fabulously rich businessmen, most of them with control of both media outlets and banks—and also with the ear of the Kremlin. The process was even seamier than the episode with which its defenders like to compare it, the emergence of the robber barons in America in the late 19th century.

Putin power

Against this background, Mr Putin's promise, when he became president in 2000, to cut the oligarchs down to size was justified and welcome. His undeclared bargain with them—that the government (and the judicial system) would not inquire too closely into the legality of their ill-gotten gains, so long as they stayed out of Russian politics—was understandable. But Mr Putin's subsequent hounding into exile of two of the oligarchs who refused to relinquish power, Vladimir Gusinsky and Boris Berezovsky, bore troubling witness to his authoritarian instincts. His latest decision to go after Mr Khodorkovsky only reinforces this picture.

For Mr Khodorkovsky's real offence, in Mr Putin's eyes, is neither his role in the privatisation and subsequent running of Yukos, nor his vast wealth. After all, these have been evident for years—and Yukos has become such a model of (by Russian standards) good corporate governance that Exxon Mobil and Chevron Texaco, two American oil giants, are even now vying to buy a big chunk of it. What changed this spring was Mr Khodorkovsky's decision to get deeply involved in Russian politics. Beyond merely criticising Mr Putin's rule, he openly financed at least two important opposition parties and wielded heavy influence in the Russian parliament, the Duma. He even began to hint at political ambitions of his own, with rumours starting to circulate that he might run for president in 2008. It was surely this political

meddling that triggered the arrest of one of Mr Khodorkovsky's closest associates in July, and that has now led to his own arrest.

Mr Putin, it has become plain, is not the sort of politician who brooks either critics or rivals. He has shut down or stifled most of Russia's independent media. As the recent elections in Chechnya and St Petersburg illustrated so graphically, he has intimidated or bought his way towards ensuring that his preferred candidates emerge as winners of any vote. Few doubt that, by hook or by crook, he will retain majority support in the Duma after December's elections: it was, indeed, the approach of those elections that gave him reason to attack Mr Khodorkovsky now. Nor does anybody expect him to tolerate any serious challenge to his re-election as president next March. In other words, the arrest of Mr Khodorkovsky must be seen as only part of a broader pattern confirming that Mr Putin is no democrat.

This, of course, may not upset the foreigners who have been pouring money into the country over the past couple of years. Stability and economic growth are what they, and arguably most Russian voters, want—and they are what Mr Putin has managed, largely thanks to high oil prices, to deliver. As the markets settled their initial nerves after this week's dramas, investors seemed to be signalling again that they would put stability above all else. Big foreign companies that have bought into Russia, such as the British oil firm BP, were quick to declare that they still had faith in the Russian government.

The trouble with this thinking is that the tacit trade-off of stability and growth against freedom and human rights may no longer work. This is because an increasingly dictatorial Mr Putin may not deliver his side of the bargain. His harassment of Mr Khodorkovsky and other oligarchs has already seen a sharp resumption of capital flight out of Russia. The run-up to the Duma and presidential elections could see more investors running from what already bore all the hallmarks of being an overbought market (see article).

Compete or die

The arrest of Mr Khodorkovsky is thus bad news for Russia's future. But would it have been right to leave him and the other oligarchs who benefited obscenely from the flawed privatisations of the 1990s untouched? The best approach is not to reopen those dodgy privatisations, still less to fling more of the oligarchs in jail. Such measures now would serve only to create uncertainty and instability, the last things Russia needs. It would be better to be crystal clear, as Mr Putin and his advisers have not always been, that the privatisations of the past will not be unwound, and instead to offer the oligarchs some kind of amnesty in exchange for a financial settlement. Then the oligarchs' business empires, and indeed the entire Russian economy, should be opened up to more competition and deregulation. The same remedy should be applied to the country's biggest state-owned firm, the gas company Gazprom.

Mr Putin may have one more chance, after he wins next March's presidential election, to take such a path of reform. He could take on the Gazprom empire by privatising it. He could cut through Russia's stifling array of regulations and corrupt bureaucrats. And he could press ahead with the country's negotiations to enter the World Trade Organisation, even though that will mean prising open sensitive and hitherto protected industries.

Sadly, all the signs are that, once back in office, he will do none of these things. Autocrats always like to talk up their ability to deliver growth and stability. Now and then it is even true. But in Russia they have invariably produced stagnation and, ultimately, instability. This week's arrest of Mr Khodorkovsky brings closer to fruition the bleak prediction that these are what Mr Putin, too, will leave behind.

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Iraq

Failure begins to look possible

Oct 30th 2003
From The Economist print edition

But there is still time to take corrective action

Get article background

AP

IT WAS clear even before the eve-of-Ramadan bombings which killed more than 40 people in Baghdad on October 27th that America was facing a more lethal insurgency than it had bargained for in post-war Iraq. Though nobody is quite sure who the attackers are—the evidence points to a combination of local and foreign Islamist *jihadis*, as well as remnants of the former regime—there is no doubting their efficacy. Their targets have been painfully well chosen. The insurgents have killed the UN's top man, forcing most UN international staff to flee the country. They have killed Mohammad Baqr al-Hakim, the well-respected Shia cleric-cum-politician who had seemed most willing to co-operate with the Americans. They have sabotaged the northern oil pipeline on which much of the country's oil revenue depends. They have killed many of the Iraqi policemen to whom the Americans had hoped to hand over more responsibility for security. And their audacious rocket attack on the heavily protected Rashid hotel, just when Paul Wolfowitz, America's deputy defence secretary, was in residence, showed that no target is beyond their reach.

No need to panic quite yet

After this week's attacks, George Bush has of course vowed to be resolute and stay the course. But many a president has vowed to be staunch only to dash for the exit the moment a foreign entanglement becomes seriously expensive and bloody. If the present insurgency were to spread much wider, a point could eventually come where America will have to contemplate abandoning its ambitious plan to plant a liberal democracy in the ashes of Saddam's Iraq. Probably—for the nerve-steadying reasons set out below—that point has not yet arrived. But as the bloodshed continues to mount, an American failure in Iraq, even if it is not yet likely, is no longer unimaginable. And the consequences of such an outcome, if they included the emergence of a new, failed, terror-breeding state at the intersection of the Middle East and the Gulf, would be dreadful for everybody. To prevent this happening, the Americans need to take evasive action right now.

First, though, the case for steady nerves. It is true that the graph of attacks in Iraq is rising scarily. On the other hand, and behind the headlines, the lines on some more promising graphs are pointing upwards too. Despite the violence, normal life is resuming in most parts of the country. The power is more or less back on; hospitals have reopened; commerce is flickering back to life; children have returned to school and students to university; oil exports are rising despite the pipeline sabotage. Moreover, thanks in part to last week's international donors' conference in Madrid (see article), but much more to Mr Bush's generosity on behalf of the American taxpayer, a phenomenal quantity of foreign help for reconstruction is on its way to Iraq. America alone looks set to send $20 billion next year—more than the whole world spends on aid to Africa and more than America has spent so fast before on any other country. Though it will be a challenge to spend all this money efficiently, the sheer volume of it will help to lubricate the hoped-for transition to democracy.

Another reason for steady nerves stems from the nature of the violence. The attackers have shown their disruptive potential. They can bleed the occupiers, scare off foreign investors, deter Iraqis from signing up for the police and make it dangerous for Iraq's would-be democratic politicians to walk safely on the

streets. All the same, this is still far from being a popular insurgency. That is to say, no recognisable group with a wide following and a plausible claim on political power appears to lie behind the terrorism. Few Iraqis say they want the old regime back, or the creation of the all-out Islamic state of the sort the *jihadis* favour. The Kurds—about a fifth of the population—are still firmly on America's side. As for the Shia majority, one young firebrand, Muqtada al-Sadr, is openly defiant of the Americans and has called into being an alternative government of his own. But as a junior cleric his following is limited, and the more senior Shia clerics are still minded to co-operate with the Americans. In a recent poll, most Iraqis said they favoured free elections, representative government, a free press and equal rights for women. Most, in short, still appear to want for Iraq what America says it also wants for it.

All the same, it's time to hurry up

In this sense, at least, America's job is not quite as hard as it looks. It is not trying to push Iraqis somewhere they do not want to go. Its problem is one of credibility. Will it really leave when Iraq has a government of its own? And is an occupying power that has so far failed to tame the streets capable of setting up such a government?

To allay these doubts, Paul Bremer, America's proconsul in Baghdad, must accelerate the political transition. He has now done a fair job of repairing infrastructure and squeezing billions for Iraq out of the American Congress. He has been less successful in plugging the political vacuum the dictatorship left behind. The Governing Council appointed by the Americans is still seen by most Iraqis as a creature of the occupation. Its powers are limited. Few of its members, most former exiles, have a national following. Under Mr Bremer's plan, this state of affairs will continue until well into 2004 and perhaps beyond, for not until then will Iraqis have a chance to vote on a new constitution and pave the way for national elections.

This methodical transition is now looking too slow. Iraqis need to feel right now that America is handing over some genuine power to a genuinely representative government. To give them such a feeling, Mr Bremer must find a way to bring voting forward—either by organising direct elections for a constitutional assembly (the course advocated by the most senior Shia clerics, which he has so far opposed) or by speeding the drafting of a constitution and putting it to a referendum without delay. Elections or a referendum will be hard to organise while the violence continues. But by conferring the missing legitimacy on a body of Iraqi politicians, some such democratic event may do more than any number of armoured divisions to stop the country's slide into violence.

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Latin America

The turmoil down south

Oct 30th 2003
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Poverty, economic stagnation and an ill-conceived drug war are undermining democracy in the Andes

Reuters

FOR the past two years, Americans have had many reasons to focus their minds farther afield. Yet just for a moment, they should take a quick glance at their own hemisphere. After five years of little or no economic growth in many countries, and with 43% of its population in poverty, Latin America is seething with frustration. Many of its democracies, some barely a generation old, are facing unprecedented tests. Some are rising to the challenge. But others, especially in the Andes, risk becoming unstable or failed states, in thrall to an ugly anti-American authoritarian populism. This is bad news for Latin Americans, but also for the United States—not least because one of the main causes of the trouble is Washington's ill-conceived war on illegal drugs.

Last month, Gonzalo (“Goni”) Sánchez de Lozada of Bolivia, a liberal friend of the United States, became the fourth duly elected Latin American president to be toppled by street protests in as many years. He had made mistakes. The biggest was to use the army against the protests, at a cost of 80 dead. That robbed him of legitimacy. But his opponents, led by Evo Morales, the truculent leader of a far-left party and of Bolivia's coca farmers (whose crop is the raw material for cocaine), seem bent on making the country ungovernable. Bolivia's best hope of being less poor lies with a foreign-backed scheme to export natural gas. Mr Morales and others have halted this, by playing on poverty and whipping up the xenophobia in the ancestral memory of an Indian majority who gained little from the Potosí silver mine of Spanish colonial times.

Last weekend in Colombia voters delivered a huge rebuff to President Álvaro Uribe, the United States's closest ally in Latin America. A referendum on fiscal and political reform failed, leaving a question mark over Colombia's public debt and its crackdown on drug-financed guerrillas and rightist vigilantes. The voters went on to elect a left-winger as mayor of Bogotá, the capital (see article). Colombia may now join much of the rest of South America in moving left.

There are problems, too, in the other Andean countries. In Peru and Ecuador, weak presidents are struggling against popular hostility and vested interests to push through mild reforms. In Venezuela, Hugo Chávez, a cunning populist, is using oil money to bribe the army and his clients among the urban poor, to try to see off a recall referendum.

In other parts of Latin America, matters are less gloomy. Mexico's Vicente Fox has disappointed, but may finally manage to persuade an opposition-run Congress to back modest reforms. Brazil's left-wing president, Luiz Inácio Lula da Silva, has made a good start: he has stuck with responsible macroeconomics, and been willing to correct initial fumbles in social policy. Argentina is recovering vigorously from its 2001 collapse, albeit by not paying its debts.

Even so, across Latin America, the public mood is one of frustration at the failure of democracy to deliver more tangible social and economic progress, or the rule of law rather than of often venal politicians. So says the latest Latinobarómetro poll, whose main findings we publish this week (see article).

There are some grounds for hope. Next year, the region's GDP may grow by 4%, the fastest rate since 1997. Democracy may be far from consolidated, but at least in most places it is surviving. In a region of

searing inequalities, the swing to the left, after a decade or more of centre-right dominance, represents a healthy alternation in power—provided, as in Brazil but not Bolivia, that the left is democratic and is attempting to reform capitalism, rather than throttle it, as Mr Chávez is doing.

Behind the turmoil in the Andes lies a struggle to create mass democracies, in which Indians and the poor have equal rights and political leadership is no longer a monopoly of the elite. It is a chaotic process, but a necessary one. Thus, Colombia's election sends a powerful message in a country in which the left long saw democratic change as impossible and violence as the only route to power.

More Lulas, fewer Chávezes

Yet there are risks in all this. Put bluntly, Latin America needs more Lulas and fewer Chávezes or Morales. That is where the United States could help. First, it is in its interests and those of Brazil to ensure that rows about trade do not sour their wider friendship. Second, the biggest service the United States could do is to recognise the folly of its drug war.

This has seen the United States pour billions of tax dollars into a futile assault on the law of supply and demand. As long as it is demanded, the prohibition of cocaine serves merely to make its production hugely lucrative, not to halt it. In Latin America the drug trade allows gangsters to amass economic, political and military power, eroding the rule of law, promoting corruption and violence from Jamaica to Rio de Janeiro, and gratuitously prolonging Colombia's deadly conflicts.

Building democracy in the Andes would anyway be hard, thanks to poverty, ethnic cleavages and difficult geography. Illegal drugs and the war against them add a needless extra handicap, and help to poison politics. Mr Morales, for example, is very much an American creation. He owes his rise to the American campaign to wipe out coca in Bolivia in the late 1990s, just as the legal economy went into recession. American officials held up Bolivia as a successful case of “alternative development”. But legal crops provided jobs for only around one in five of those who worked in coca. When last year Goni begged Washington for more anti-drug aid, he was rebuffed. In Colombia, Mr Uribe is waging a massive campaign to wipe out coca. This is storing up discontent—and will merely shift coca to Peru and Bolivia.

The Economist has long argued for an end to the hypocrisy of prohibition. Drugs should be seen as a problem of health, education and personal responsibility, not law enforcement, let alone foreign policy. In January, George Bush will go to Mexico to meet 33 other heads of government from the Americas. This get-together lacks a serious agenda (trade, at Brazil's insistence, will be discussed elsewhere). So here is a suggestion: make calling off the drug war, for good, the first item. Or risk the Andes falling into worse turmoil.

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The European Central Bank

Bonne chance, Mr Trichet

Oct 30th 2003
From The Economist print edition

A difficult, perhaps impossible, task awaits the new president of the ECB

Reuters

Get article background

HE HAS scarcely had the smoothest progress to the top, but now he is all but there. On November 1st Jean-Claude Trichet, head of the Bank of France, is due to succeed Wim Duisenberg as president of the European Central Bank (ECB). He has been heir-apparent for five years, following a deal (much trumpeted by the French, always denied by Mr Duisenberg) that the Dutchman would make way for him in the middle of his eight-year term. This year he had to wait while he stood trial, and was acquitted, over what he knew about the questionable accounts of Crédit Lyonnais, a state-owned bank, when he ran the French treasury. The impression that Mr Trichet has been appointed as much for his nationality as for his ability should not obscure his qualities as a central banker. Just as well: in running the ECB, he will need them all.

In one respect, Mr Trichet should carry on where his predecessor leaves off. Mr Duisenberg has regularly exhorted euro-zone governments to make their economies, especially their labour markets, more flexible. Jolly good: Mr Trichet, too, cannot say this often enough. In several other ways, however, Mr Trichet's ECB must do better than Mr Duisenberg's.

Harder definition, softer policy

First and foremost is the conduct of monetary policy. Officially, the ECB's duty is to maintain “price stability”: how it defines this is for the bank itself to decide. Until recently, it said, price stability meant an inflation rate of 2% or less. Now it aims for “below but close to 2%”. By its own yardstick, the ECB has been a bit of a softie: euro-area inflation has rarely been below 2% in the past three years. However, in the world outside the Frankfurt tower, things look rather different. Although the euro area's weakness relative to America in recent years has often been exaggerated, for a year or more the zone's performance has been feeble. This has had much to do with weak domestic demand, notably in Germany, the euro area's biggest economy. Now, with the euro on an upward trend against the dollar, the zone lacks even the help of an undervalued currency. You might conclude that monetary policy, far from being too soft, has been on the tight side.

Because one interest rate must serve all 12 euro-zone countries, weak and strong alike, and because official statistics overstate inflation, there is a fair chance that the 2% goal will mean falling prices sometimes, somewhere. Mr Duisenberg seems to have cared little about this. In a currency union, he thinks, deflation in individual countries “is not a meaningful concept”. And in any case, he once said, a negative inflation rate was a “central banker's paradise”. Mr Trichet, however, should rethink—yes, again—the definition of price stability, and rethink it upwards. He should also make it clearer, by defining, as the British government has done for the Bank of England, a symmetrical range of tolerable variation.

This would help in the second area of necessary improvement: communicating the ECB's strategy to the economists, traders and others who track its every move. Granted, Mr Duisenberg got better at this towards the end of his term. Then again, having made one blunder after another at the start, he would have struggled to get any worse.

Third is the relationship between monetary and fiscal policy. To be sure, European governments will have to keep tight control of their finances in the medium term: just look at those mounting pension obligations. Yet the euro area's stability and growth pact is plain daft. It insists on deficits of less than 3% of GDP virtually all the time, even when, as now, the zone is flirting with recession. Today the pact looks more of a nonsense than ever, with France and Germany both in breach and the French in virtual contempt of it. Yet Mr Duisenberg has been a pact purist, even hinting that slack budgets might be compensated for by higher interest rates. Mr Trichet should avoid such slavish devotion.

Sorting all this out would be hard enough even without the extra, huge task due during Mr Trichet's eight-year term: the extension of the single-currency zone to more countries, mainly in central Europe, bringing its membership to two dozen or more. Setting a single interest rate for 12 countries has been hard enough, even with low inflation. Choosing one for a much more mixed bag of 20-odd may be impossible—even for a man of Mr Trichet's talents.

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The Tory leadership

Now for the hard part

Oct 30th 2003
From The Economist print edition

Iain Duncan Smith had to go. But the problems of Britain's Conservative Party run deep

Get article background

CONSERVATIVE MPs were right to sack their leader. Iain Duncan Smith has displayed a reckless courage of late that will have won him a degree of sympathy in many quarters, but this does not alter the fact that he lacked the qualities required to lead a major political party. Over the past two years he has proved himself to be a bad manager of people, a poor communicator and a muddled strategist.

None of this should have been surprising. There was nothing in Mr Duncan Smith's past to suggest that he might have the talent to improve Tory fortunes. He was elected leader not because of who he was, but because of who he was not (neither the Europhile Kenneth Clarke, nor the socially liberal Michael Portillo). And, crucially, he was the first Tory leader in modern times to be elected without winning the support of a majority of Conservative MPs. His mandate was from the party's activists. He was never able to convince enough of his MPs that he was the right man for the job.

Had Mr Duncan Smith, like some who unexpectedly find themselves thrust into positions of high responsibility, grown in stature, he might have overcome these disadvantages. But he seemed actually to shrink in office. He did not look like a potential prime minister: his MPs knew it and, according to every opinion poll, so too did voters. With Mr Duncan Smith as leader, the government, with all its failings, could contemplate a third term with its huge parliamentary majority undented.

Now what?

Ditching the hapless Mr Duncan Smith was a necessary condition for a Tory revival; it is far from being a sufficient one. The party's problems are too deep-seated to be overcome quickly or easily. With the party preparing to anoint Michael Howard as its new leader, it can look forward to a more authoritative and effective presence in the House of Commons. But failing to put on a good show there has been less worrying than the fact that today's Conservative Party bears little resemblance to the country it aspires to govern. The average age of its 250,000 members (the official figure is higher, but not to be trusted) is more than 65, and 90% of them inhabit the affluent market towns and villages of the south-east. Britain's big cities may be declining in population, but they are still where the young tend to live and where social trends and attitudes are formed.

They are also the places that throw up the difficult issues which political parties must show they understand if they are to be thought relevant and in touch. The most deprived inner cities will always be difficult territory for Tories, but it is shaming for the party that it no longer holds a single parliamentary seat in any major city outside London. Even in the capital only 13 out of 74 constituencies returned Conservative MPs in the general election of 2001. The vitality of a political party is determined by the people it represents. Unless Conservatives rediscover the determination to win back seats in places such as Birmingham, Leeds and Manchester, they risk forfeiting the right to be considered a truly national party.

Lately the Tories have had no stomach for that kind of fight—though their appetite for Westminster assassinations has never been in doubt. The Liberal Democrats have shown how a strong base in local

government combined with a willingness to work hard at winning target seats can pay off. But the Tories have shown little understanding of how to exploit their strong presence in local government and have been unable to recruit the tireless footsoldiers needed to take and hold bridgeheads in hostile territory. Most lamentably, they appear to have simply given up in many of the seats lost to the Lib Dems since 1997. It is too easy to put all the blame for this state of affairs on the Conservatives' chaotic national organisation. The harsher truth is that would-be Tory MPs lack the required patience and humility, while few of those who are already MPs are prepared to stray beyond their comfort zones of genteel constituency and clubby Westminster.

Just get back in the game

No matter how much of an improvement Mr Howard may be in other respects, unless there is a concerted attempt to deal with these shortcomings, the party will make little progress. That said, the party has recently shown encouraging signs of intellectual life after more than a decade of being an ideas-free area. It has developed a damning critique of what it describes as Labour's command-and-control approach to running the public services. Much thought is being applied to finding practical ways in which vouchers for education and health care might be used to give parents and patients more choice and a bigger say over the way services are delivered. New ideas on taxation are also under review.

Policies such as this can be developed in ways that express a coherent intellectual programme; better still, they could even be popular. Unfortunately, some current Tory policies, such as the commitments to abolish university tuition fees and to restore the link between the state pension and earnings, appear to owe more to opportunism than to intellectual probity. Still, given a more capable leader—one who can take the fight to the government, while articulating a set of core policies that are credible, consistent and focused on the issues of greatest concern to ordinary voters—the Tories can at least hope to get themselves back in the game.

Winning the next election is another matter. No opposition party in history has succeeded in overturning an overall majority of more than 160 in one bound. The most the Tories can plausibly hope for is to do well enough at the next election to establish a platform from which to have a realistic chance of winning the one after that. Most of the Conservatives' present travails are the consequence of their remoteness from power. Without any prospect of the patronage that comes with office, its leaders struggle to impose discipline on the party's MPs, and talented individuals are inclined to take their talents elsewhere. Problems that seem insuperable now will become less so, if only the Conservative Party can begin to believe it has a future. That proved beyond Mr Duncan Smith. It is the minimum required of his successor.

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Letters

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From Economist.com

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Paying for failure

SIR – You take to task executive pay packages, in particular golden parachutes and rewards for failure ("Where's the stick?", October 11th). Fat cats prefer a bird in the hand. In order to recruit top-tier executive talent a company must more than match an executive's current package, to offset the risks of leaving an established record and a well-run and well-known business.

Given that people put a much greater value on the known, the least expensive way to hire and retain executives is to pay for a safety net. The more restrictions and the longer the duration before payout the larger it must be to offset the net present value of a vested compensation plan. As unpalatable as paying for failure is, it may be the least expensive method to unlock the golden handcuffs.

Daniel Goldman
Chicago

SIR – The Lake Wobegon effect on executive pay also applies to the spiralling inflation of salaries in professional sports. In America, negotiations are based on comparisons with the pay levels of others with similar ability and experience. Each player renewing his contract gets a favourable appreciation of his talent compared to a group of like players, thus inflating the average pay of the bunch with each signing.

As a player gains mobility through free agency his services are auctioned, which results in his getting the highest salary that any team will concede. Rich teams have the upper hand, both in signing the best players and in inflating average salaries to levels unsustainable for rivals with shallower pockets.

Pierre Emmanuel Paradis
Montreal

All the way from Memphis

SIR – Lexington refers to the Texas legislature's "pioneering work" in gerrymandering its congressional districts (October 18th). Although gerrymandering is a serious challenge for American democracy, the Texas legislature is hardly pioneering. After the 2000 census, Tennessee's Democrat-controlled legislature redrew the state's seventh congressional district so that it stretched for over 200 miles, half the length of the state, to include predominately Republican portions of the state's two largest cities, Memphis and Nashville. Tennessee, a state that refused to elect Al Gore in 2000 and sends two Republican senators to Washington, has a mainly Democratic House delegation. All instances of gerrymandering are deplorable, but as you say, at least Texas's effort will more closely reflect the political will of Texans. I wish Tennesseans could say the same.

Evan Hagemeyer
Nashville, Tennessee

Grenada remembered

SIR – In Barbados 20 years ago I watched a film smuggled out of Grenada ("Grenada, then and now", October 18th). It showed a crowd calling for the release of Maurice Bishop from the top of Fort Rupert's walls where he was being held. The sound of automatic gunfire abruptly cuts in; many of those on the

wall were literally blown away. My father, Tom Adams, then prime minister of Barbados, pleaded with the minister in Bishop's government who had brought the film not to return to Grenada. He did return and was in turn murdered.

Many anniversary articles reflecting on the intervention in Grenada have taken the opportunity to compare it to the policy of the United States on Iraq—unilaterlism, violation of sovereignty and so forth. It is worth waving away this fog of dogma that dominates much discussion involving America to consider that, even in a world characterised by realpolitik with its shades of grey, there remain issues in black and white. A regime prepared to execute citizenry in its first days cannot but be viewed with alarm and considered as murderous. What might it have done next? Stability—including the preservation of lives—would not have been restored to Grenada more swiftly by any other means.

Rawdon Adams
St Ismier, France

Kibaki's Kenya

SIR – I am surprised by your comments on the abilities of President Mwai Kibaki ("Going wrong?", October 11th). Mr Kibaki is the best-tutored and best-prepared head of state that Kenya has ever had. What you call “befuddled” is the president's gentlemanly mystique; his intellectual and reflective approach to issues you interpret as “prone to indolence”. For your information, Mr Kibaki's favourite drinks are leach juice and Kenyan tea, not anything else you allude to. The president has brought back into classrooms 1.2m children previously denied access to education, he has brought hope to millions of farmers previously paid throw-away prices for their farm output, he has begun a systematic and relentless campaign against the corruption that tore into the fabric of the Kenyan nation and he has embarked on radical economic and social reforms that have already begun to bear fruit.

Isaiya Kabira
Director
Presidential press service
Nairobi

Merchants of Venice

SIR – It is important to save Venice's monuments and permit tourists to continue to visit. But it is also important to preserve its economy and the main non-tourist activity, its port (“Saving Venice”, September 27th). As Anna Somers Cocks, chairman of the Venice in Peril Fund, says, Venice has to become again a city where “more people will want to live, invest and do business”. The role of the port of Venice in the economy of the city is central and irreplaceable.

The growth of Venice and the construction of its monuments were possible in past centuries only because of the port's revenues. After the big flood of November 1966, special legislation for Venice provided that the “commercial port function and related activities must be strengthened” for the “social and economic vitality of Venice and its lagoon”. Today the port, together with tourism, is the most important economic activity in the lagoon area.

Andrea Razzini
General secretary
Venice Port Authority
Venice

Poor relations

SIR – Canadians truly believe that their lagging incomes are simply a product of having fewer “rich folk” around and that their military impotence is a result of being such “really good guys” that no one has a beef with them so they have no need of a military capability to defend their shores or foreign interests (Letters, October 25th).

The day I hear a Canadian admit his country is wealthy, modern and free largely because it is nestled up against the world's largest and most advanced economy is the day I will stop considering Canada as a beautiful but ultimately myopic and naive nation.

Michael McDaniel
Oklahoma

SIR – Abraham Barrios says of politicians who want Canada to be more like America: “For decades, Canadians have kept these people where they belong: in opposition.” In fact, they have kept many productive, educated Canadians who value individual rights and freedom where we belong: in America.

Robin Mockett
Los Angeles

Passing the hat

SIR – Referring to Spain's hosting of the conference on aid for Iraq (”Passing the hat”, Economist.com, October 24th) and its own generous contribution of $300m, I'm inclined to paraphrase *The Economist*: “Congratulations, Spain (so no need for any more EU aid, then?)”.

Johannes M. Heine
New York

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Ethics and politics

Whose life is it, anyway?

Oct 30th 2003 | WASHINGTON, DC
From The Economist print edition

Where family tragedy meets the separation of powers

Get article background

TERRI SCHIAVO lies in a Florida hospice, fed by a drip feed. She wakes and sleeps in a regular cycle. A video taken a year ago shows her eyes following the path of a Mickey Mouse balloon held by her father. A faint smile seems to brush her lips as her mother touches her. Doctors say her brain has been destroyed, that these responses are unconscious and that she will never be able to interact with her surroundings. Unwittingly, Mrs Schiavo has become the central figure in one of the most grievous medical, legal and family disputes of recent times.

Until about the 1970s, death was deemed to occur when the heart stopped. As medical advances made it possible to keep the heart beating longer, death came to be defined by the condition of the brain. But the brain is not a binary organism, switched on or off. There are dozens of states in between. As many as 30,000 people in America are suspended in a grey area between life and death. Mrs Schiavo's case is about exactly what state someone must be in before it becomes merciful to let them die. It is also about the agony the family experiences when deciding what is right for those who cannot decide for themselves.

As if the matter were not difficult enough, the case has also touched off a storm of protest among right-to-life groups. As a result of their pressure, Florida's legislature has ridden roughshod over years of legal precedent in “right-to die” cases, allowed Governor Jeb Bush to involve himself in the dispute and taken away the right most people think they have to refuse medical treatment to their loved ones *in extremis*.

The story begins in February 1990. Mrs Schiavo, then 26, suffered a heart attack that caused massive loss of oxygen to the brain. She emerged in a “persistent vegetative state”—the common term for someone who does not respond consciously to their surroundings.

At first, the family rallied behind her and each other. Michael, her husband, trained as a respiratory nurse in order to look after his wife. Mrs Schiavo moved back into the house shared by her husband and her parents, Bob and Mary Schindler.

Then the court cases began. At first they seem to have been a cause, as much as a reflection, of family disputes. Mr Schiavo sued his wife's gynaecologist for malpractice; the court found for Mr Schiavo and awarded him $1m. This sum seems to have started the feud. Husband and father-in-law had a blazing row about what it should be used for at Terri's bedside. In practice, much of it was to go on legal fees.

The dispute soon became about more than money. Parents and husband disagreed on two basic questions. What was her medical condition? And what would she have wanted?

Mrs Schiavo's parents believed she delighted in the sound of their voices and could perhaps one day be recalled from her half-life by therapy. Early on, her husband seems to have believed that too. He told a court he had become a nurse in the hope that she might recover somewhat under his care.

When a video recording, disseminated on the internet, showed her apparently responding to her parents, there was an outpouring of public sympathy. Many people believed she suffered “locked-in syndrome”—trapped in a body she could not control, but with some consciousness. On this basis, the Schindlers demanded that she continue to be kept on a drip feed.

The medical diagnosis contradicted the public response. Most, though not all, neurologists said a CAT scan showed that Mrs Schiavo's brain had been irreparably damaged. At best, isolated parts of the brain still function, mere sparks in the sub-cortex. The doctors say her apparent responses to her parents were accidents; there can be no recovery. On this basis, her husband thought she should be allowed to die, as he claimed she said she wanted.

Questions about when to pull the plug are among the most wrenching any doctor and family member can face. But legally, there is clarity. The law in Florida, and elsewhere, says there must be a single guardian or “surrogate decision-maker”. It requires this to avoid unremitting disputes between every member of the family, each with legitimate, passionate but unresolvable interests. For the same reason, as Dahlia Lithwick of *Slate* (an online magazine) points out, a child's custody is not divided among all family members.

The law also says who the one decision-maker should be: the spouse, unless he or she is demonstrably unfit. This is because you have chosen whom you marry. Laws in many states hold that the rights of a one-week marriage supersede parental rights. Perhaps that is understandable. Parents are hard-wired to keep their child alive at all costs.

Judges v legislators

In Mrs Schiavo's case, however, there was a twist. The courts actually made the decision. In May 1998, Michael Schiavo petitioned a circuit court to order his wife's life-support system to be removed. In February 2000, Judge George Greer ruled in his favour. He found clear evidence that Mrs Schiavo would have chosen not to receive life-prolonging care if she could; he also ruled, as a question of fact, that her brain had indeed been destroyed. These findings are the heart of the legal case.

In April 2001, her feeding tube was removed. Two days later, it was reinserted when Mrs Schiavo's parents appealed against Judge Greer's ruling. Two and a half years of appeals were about to begin.

Some were based on technicalities. But because the husband's legal position can be set aside only if he is unfit, Mr Schiavo's life and character also became a matter of controversy. The Schindlers said he was not fit to decide their daughter's fate, in part because he had started a new family (he had a child by a girlfriend, who is expecting another). He retorted that his personal life had nothing to do with Terri's condition. The Schindlers also claimed that their daughter's condition might have been caused by physical abuse.

One by one, state and federal courts ruled in Mr Schiavo's favour. On October 14th, the Schindlers' last appeal was rejected. The next day, Terri's feeding tube was removed for the second time.

That set the stage for the Florida legislature. The court rulings (and still more, the internet video) produced a storm of protest among fundamentalist Protestants, who are strong in the legislature, and among Catholics. The Schindlers are Catholic; a priest placed a relic of Mother Teresa on their daughter's body. So is Jeb Bush, who converted to his wife's faith. He twice filed briefs with the court on the Schindlers' behalf. Some of these protesters argued that life support should never be withdrawn from any

living person. Others said that, in this particular case, one should “err on the side of life”.

Responding to the pressure, the Florida legislature passed a remarkable law on October 21st: for 15 days, the governor could stay a court order in cases like Mrs Schiavo's. Mr Bush promptly stayed the order to remove the drip feed. It was hooked up for the third time.

This law appears to be unprecedented. In practice it applies to only one person, which would be unconstitutional. It rejects decades of legal precedent, which make one spouse the other's guardian. So it strikes at a foundation of family law—a paradox, considering that many of the law's backers are social conservatives.

In 1990, the Supreme Court, in *Cruzan v Missouri Department of Health*, said the constitutional right of privacy covers unwanted medical procedures. Mr Schiavo says the new law contradicts that (and remember, lower courts have ruled these procedures are unwanted). It also seems comprehensively to violate the separation of powers, since the legislature has appointed the governor (from the executive branch) to overrule the courts on a matter of fact. Appeals were lodged this week. But this week, too, President George Bush stepped in to commend his brother's efforts to keep Mrs Schiavo alive.

There, for the moment, the matter rests: testimony to the impossible questions of medical science, to the wrenching differences of family opinion and to the venomous impact on them of public outcry. Above all, it is testimony to the hubris of politicians. Inside the hospice, Mr Schiavo prevents doctors hired by Terri's parents from examining her. Outside, pro-lifers maintain their noisy vigil. Mrs Schiavo has now lain unconscious for 13 years.

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The California fires

Tindertown

Oct 30th 2003 | LOS ANGELES
From The Economist print edition

Inexorably growing Los Angeles meets another primal force

AFP

Devastation, next ten exits

Get article background

“THE worst disaster the state has ever experienced,” is how Governor Gray Davis this week described the devastating arc of wildfires running from just north-east of Los Angeles down past San Diego to the Mexican border. Forgive Mr Davis, enduring his last month in office, his hyperbole (although the present disaster may turn out to be the most expensive ever, past earthquakes have been more destructive to life). For since the first fires broke out on October 21st the nation's television screens have been filled with dramatic images of trees and houses exploding in flames, of families in flight and of exhausted firefighters battling to quench nature's wrath. As the Los Angeles sky darkens with noxious fumes and ash flakes fall on their Cadillacs, the tragedy has affected even the navel-gazing celebrities of Hollywood.

The question is who, or what, to blame for a tragedy that has destroyed more than 2,000 houses, laid waste hundreds of thousands of acres and cost around a score of lives. One fire was started by a lost mountaineer, hoping to signal his position; some were sparked by arsonists; all were magnified when hot “Santa Ana” winds suddenly blew from the Nevada desert across Californian brush already dried to tinder by months of drought.

But there is one further explanation: the encroachment of human habitation into California's wilderness. Environmentalists accuse the politicians of too readily allowing houses to be built close to fire-prone brush. Their critics say environmental lobbying stops developers cutting fire-breaks through the canyons, or clearing desiccated trees killed by bark beetles. And the householders themselves resist the idea of controlled fire-burns to clear the brush because they scar the landscape for a while and, occasionally, go out of control.

The final cost, whatever it is, will hit a state that is already in deep financial difficulty. One blessing is that on October 27th President George Bush agreed to Mr Davis's plea for emergency federal aid. Perhaps, too, the visit to Washington on October 28-29th by Governor-elect Arnold Schwarzenegger will result in future generosity as well as immediate sympathy. But the sad fact of nature is that the present wildfire will not be the last. Unhappily, Californians know the same is true of their earthquakes and mudslides.

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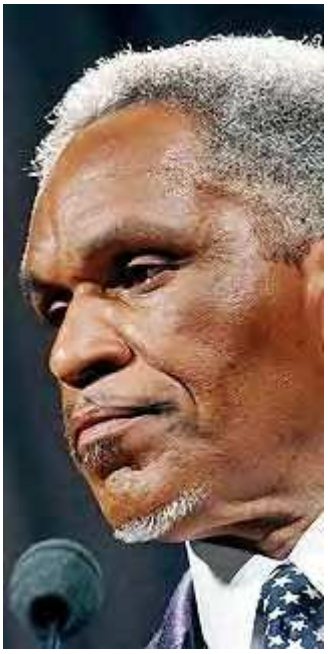
The Philadelphia mayor's race

Enter the FBI

Oct 30th 2003 | PHILADELPHIA, PENNSYLVANIA
From The Economist print edition

A whole lot of probing going on

AP



Street suspects foul play

JOHN STREET'S message at the Heavenly Hall Gospel Temple is strong and upbeat. Just days from the mayoral election on November 4th, the Democratic incumbent urges voters to go on building a greater Philadelphia. Supporters leap up, arms raised, and repeat his mantra to unite.

The mayor's confidence is surprising, because most polls show that the race is very close. In spite of a four-to-one Democratic advantage among registered voters in the city, Mr Street leads the Republican, Sam Katz, by a handful of points. And it has recently emerged that his office is being bugged by the FBI.

The gaffe was blown when Philadelphia police, in a routine sweep of the mayor's office, found a sophisticated listening device, with several microphones, hidden in the ceiling. Federal agents then confiscated three of the mayor's hand-held computers and some city documents. In mid-October the *Philadelphia Inquirer* reported that the probe involved a top fundraiser and political ally of Mr Street, as well as the Philadelphia Housing Authority, and had been going on for two years. It may be connected with federal investigations into a $13.6m airport contract with a company linked to Mr Street's brother, and with a ticket-fixing scam (the fairly common practice of cancelling parking tickets issued to a mayor's friends) earlier this year.

Neither the FBI nor the police have said that the mayor himself is the subject of an investigation. He has merely been “advised of his status” by the agency. The FBI said very quickly that the bugging had nothing to do with the race, but provided no more enlightenment.

Politicians on both sides appear baffled. At the final campaign debate on October 21st the mayor insisted he had no idea why he was being bugged, and said investigators would find no corruption, no sex and no profanity. Mr Katz disagrees. As an expert on municipal finances, he insists that City Hall needs cleaning up. He accuses the mayor of playing the victim, holding back information and embarrassing the city.

Supporters credit Mr Street, who emerged from a humble Philadelphia district, with lowering crime, improving poor areas and sprucing up City Hall. The probe now raises suspicions that, just like his Democratic predecessors, he operates a “pay-to-play” system of swapping campaign dollars for municipal contracts.

The city has some pressing problems. According to the Bureau of Labour Statistics, 28,000 jobs have been lost since May 2000. Big companies such as Cigna and Aramark are considering leaving town, along with more skilled graduates. The city also needs new schools. But to the dismay of both candidates, the FBI probe has become the focus of the race.

Conspiracy theories abound. Many say the inquiry is an attempt by the Bush administration to end the Democrats' 52-year lock on the city. In 2000, thanks to Pittsburgh and Philadelphia, Al Gore won Pennsylvania with more votes than Bill Clinton did in 1992. With Ed Rendell, a Democrat, as the popular governor, this trend is not likely to reverse.

The mayor's office, joined by top Democrats such as Hillary Clinton, see possible foul play in the timing of the raids. Black voters, 94% of whom voted for Mr Street last time, recall FBI probes of Martin Luther King and Malcolm X and wonder if this snare, too, is racially motivated. On October 26th, black

Democratic mayors from other cities campaigned in Philadelphia's churches on Mr Street's behalf.

Sympathy so far is working in his favour. Before the news broke, polls had Mr Katz ahead by five percentage points. One poll this week showed Mr Street leading by 17 points. Roger Lane, a social historian at Haverford College and author of a recent book on Philadelphia, says it takes a lot to shock content and corrupt Philadelphians. Besides, nothing galvanises voters better than indignation. The thought that the Bush administration may have instigated the probe, whether true or not, outrages many voters—black, white, liberal and even, occasionally, Republican.

Local experts think Mr Katz could still win. His spokesman, Nathan Raab, insists that voters are sick of dishonesty and want change, and that even some Democrats agree. Since the summer, Mr Katz has received support from 13 unions. They include the predominantly black union of garbage-collectors, whose leader, Pete Matthews, feels the mayor has not treated the city's blue-collar workers with respect.

Gay voters may also turn to the Republican candidate. Mr Katz has pledged funding for three community centres, speaks openly of his brother's death from AIDS and wants to establish domestic-partnership rights. But Mr Street, who has alienated gay voters in the past, has improved relations so much that gay leaders have endorsed him this time. One voter outside a downtown café sighs: “Like most of Philadelphia, we feel very torn.”

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The 2004 election

Looking for Reagan Democrats

Oct 30th 2003 | WARREN, MICHIGAN
From The Economist print edition

A bellwether county becomes more viscerally Republican

EARLY on a brilliant Tuesday afternoon it is already dark and smoky inside JB Bamboozles, a bar directly across 12 Mile Road from the General Motors technical centre. Several vans and pick-up trucks are parked outside. Two middle-aged men nursing beers and cigarettes happily volunteer their views on politics. “Republican”, says a scruffy-bearded fellow who works for the city of Warren. He can't think of a bad thing to say about George Bush, except that maybe the president should have “bombed them to death” in Iraq. His drinking buddy, the owner of a small business that supplies the car industry, is a bit more reflective. He likes Mr Bush too, but has yet to make up his mind on the presidential race. The only Democrat who has really turned his head so far is General Wesley Clark, “because he sounds like Lee Iacocca [the former boss of Chrysler]—straight talk”. The men agree that the economy is rotten, and is the chief topic on their minds these days.

Welcome to Macomb County, Michigan, a patch of blue-collar America made famous by Ronald Reagan more than two decades ago. Ever since Mr Reagan won over socially conservative Democrats in this union stronghold, the county has been considered a political bellwether, and “Reagan Democrats” have been courted by both political parties. A recent swing through the county north-east of Detroit, though, reveals that Republicans have made big inroads at lower levels in a place that was once considered solidly Democratic.

The shift is evident in many ways. A majority of Macomb voters backed Republican Dick Posthumus in last year's race for governor, although Jennifer Granholm, the Democrat, won the statewide ballot. Since last year the county board of commissioners has included 14 Democrats and 12 Republicans, the closest split ever. Perhaps most compelling is a statewide poll by EPIC/MRA in mid-October, in which 46% of Macomb County voters said they definitely plan to re-elect Mr Bush, compared with 33% of all Michigan voters. More than half the county's voters give Mr Bush an “excellent or good” job rating, compared with 47% in the state as a whole.

Part of the reason for Republican gains is the development of northern Macomb, a once largely rural area that has drawn in crowds of people seeking large lots on relatively cheap land (taxes are lower in Macomb than in neighbouring counties). Macomb's population, now about 813,000, grew by about 70,000 in the 1990s, according to the Census Bureau.

The fading influence of traditional Democratic institutions has also played a role. The Big Three American carmakers – General Motors, Ford and DaimlerChrysler—are substantial employers in the county, but layoffs keep coming and union influence is not what it was. Since Congressman David Bonior left office (he was defeated in the Democratic gubernatorial primary by Ms Granholm), county Democrats have lost another leading light. Mr Bonior “brought an organisation that we're working hard to keep,” says Nancy White, a Democrat who chairs the county commission. “But without him leading the pack, we're trying to hold it together.” Mr Bonior's legacy lives on in the county in the thousands of evergreen trees which his campaign team gave to residents every election year since he first ran, in 1976.

Ed Sarpolus, a Michigan pollster who was born in Macomb, says the county has a reputation for racism. As recently as last year, a state representative with ties to the United Auto Workers union claimed that

his rival in the Democratic primary, Congressman Sander Levin, could not adequately represent the district because he was a Jew; and middle-class blacks would rather move to neighbouring Oakland County. Mr Sarpolus also sees a brain-drain from Macomb, with the better educated and better paid children of the Reagan Democrats moving to Oakland County, too.

Peter Lund, a Republican who is vice-chair of the county commission, says the difference is more about style. “Macomb County has its fair share of millionaires, but ours still clip coupons.” Local residents, he says, are a down-to-earth lot, and the many American flags fluttering from their houses testify to their patriotic spirit. Thousands of jobs are tied to the armed forces, and Macomb is vying to be one of the new regional headquarters for the federal Department of Homeland Security at the Selfridge National Guard air base.

The economy remains the chief worry for many residents. Michigan has been hard-hit by the loss of manufacturing jobs, and the heavy concentration of car-industry work makes many feel vulnerable. Yet they cannot ignore the press of foreign affairs. The Wesley Clark fan in JB Bamboozles refused to let his daughter go on a school trip to France this year, after the international schism over Iraq. “My wife said I should let her go,” he said. “She always gets her way. But not this time.”

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The National Football League

Let's hear it for the Maroons

Oct 30th 2003 | POTTSVILLE, PENNSYLVANIA
From The Economist print edition

AP

An old wrong may be about to be righted

IN THE 1920s, decades before the emergence of the international sensation known as the Super Bowl, the National Football League (NFL) was a loose collection of franchises sited not just in big cities but in small towns, too. Rock Island, Illinois and Muncie, Indiana had their teams, as well as Chicago and Detroit.

In 1925, the Pottsville Maroons, based in a coal-mining and textile-weaving town in east-central Pennsylvania, elbowed and tackled their way to the NFL championship—that is, until the league, to the eternal outrage of Pottsville, revoked the title on a technicality. Now, almost eight decades later, the dispute may finally be resolved—with any luck, in Pottsville's favour.

Wearing maroon jerseys (the only colour available at the local sporting-goods store), and with high-top shoes, leather maskless helmets and trousers padded with magazines, the Maroons beat the league's other strong team, the Chicago Cardinals, towards the end of the 1925 season. Believing its championship to be secure, Pottsville scheduled one more game, against a team of college all-stars from Notre Dame. Because college football was then far more popular than pro football, Pottsville decided to play the game in Philadelphia, which had a bigger stadium. But this rankled the NFL franchise in the city, which urged the league to strip Pottsville of its title. The league did so, and gave it to the Cardinals.

In Pottsville, frustration has festered ever since. The town is suffering anyway from the decline of anthracite coal and textiles, which has left it with 16,000 residents today, down from 25,000 in the 1920s. Since 1925, it has lobbied periodically for the title to be restored, and the league has always refused. But in May the governor of Pennsylvania, Ed Rendell, and the mayor of Pottsville, John Reiley, argued the Maroons' case before the NFL. A decision is expected any day.

It is still an uphill fight for Pottsville, but, when pressed, Maroons supporters hint at a compromise. After all this time, they will gladly settle for the honour of a co-championship.

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Lexington

For their eyes only

Oct 30th 2003
From The Economist print edition

Is the Bush administration seeking too much control over public information?

DURING his recent trip to Asia, George Bush was said to be shocked to discover that moderate Muslim nations had become more anti-American. His surprise is itself shocking. How can he possibly not have known that? It is in every newspaper, every day.

The explanation is obvious: Mr Bush does not read the newspapers. Rather, he reads a digest of them, prepared by the White House. Perhaps he skipped the stories about anti-Americanism in Indonesia. Perhaps they were not included. And that encapsulates one of the most important characteristics of the Bush administration: it shields the information it uses from public view. All outsiders can know with any confidence is that the president seemed surprised by a fact that surprises almost no one else.

And this is just a tiny example. In case after case—from the formulation of energy policy to discussions of terrorism before September 11th, 2001—the basis on which members of the administration form their judgments is kept dark. The information bit of the Bush White House is a black box.

To proponents of open government, Republicans as much as Democrats, this is just the old story of an administration keeping secrets for its own convenience. Mr Bush disputes that. In a democracy, he argues, an administration should be held accountable to voters for its actions and policies. That will happen next year. But there is no equivalent requirement to be held accountable for the processes behind its actions, so proper democratic accountability is not harmed by keeping some processes secret.

A reply to that might be that Congress does not operate in the dark. It does not issue laws after closed sessions and say blithely, well, there's an election in a couple of years; you can judge us then. What is different about the administration?

Two things, reply the sleepless guardians of the White House. First, national-security concerns, which have increased exponentially since the terrorist attacks. In the past few weeks, the intelligence committees of both House and Senate, as well as the federal commission investigating the attacks of September 11th, have all complained about the quality of information they are receiving (or often not receiving) from the administration as they try to scrutinise and improve America's security. The White House retorts that it is trying to be as open as it can without handing al-Qaeda the keys to the store. Moreover, in the six months after September 11th, no less than 300 executive orders were issued at federal, state and local level restricting access to public information. So secrecy on security grounds is

hardly a preserve of the White House.

Second, as the White House tells it, greater restrictions on information are needed to improve the quality of advice the president receives. On their view, 30 years of excessively open government have eroded the willingness of the president's top advisers to be free and open for fear that they will be embarrassed to read all about it the next day. The administration's well-deserved reputation for being leak-proof is a by-product of this discretion.

Hence, in the *locus classicus* of the administration's embrace of secrecy, the White House refused to give the General Accounting Office of Congress (GAO) the names, dates and subjects of meetings of the energy task-force assembled in 2001 by the vice-president. The GAO sued Dick Cheney to obtain the materials and lost. When the report at last appeared this August, the GAO admitted that the results were not up to accepted standards of government auditing. And that claim summarises the trade-off involved in the White House policy of controlling information.

The control cuts two ways. It may free up debate within the White House, but it can also narrow the range of opinions available to the president. A case in point is the near-total secrecy in which the Department of Homeland Security was hatched. No cabinet secretary was consulted. Nor were most senior advisers. The largest government reorganisation in half a century, involving huge numbers of civil servants and tricky questions of government relations, was decided upon by a handful of people (originally four, with aides) and without serious consultation with Congress. Did that improve the quality of decisions?

Next, there is mission creep: secrecy too easily becomes a cover for political convenience. Perhaps that is not happening when the administration invokes national-security claims (though, again, it is hard to tell). But why else were Mr Bush's gubernatorial records in Texas transferred to his father's presidential library in Houston, where they were not subject to Texas's public-information law? They were eventually brought under that law and made available to the public, but only after an order from the Texas attorney-general.

Caution or deception?

Above all, secrecy leaves the administration open to accusations of bad faith—and makes those allegations harder to answer. A case in point: the Iraq war. What led the president to decide Saddam Hussein had to be overthrown? The public justifications leave open a range of possibilities. Mr Bush sometimes argued that Saddam had flouted United Nations resolutions and sometimes that he threatened American national security. But since there is little information about the underlying assessments the president used to judge the nature of the threat, people remain free to accuse him of everything from misleading the public to going to war for Iraq's oilfields. And in this case, the president's argument—judge me by the results of my policies—cannot really apply. As he himself says, the true results of war with Iraq will be evident only in about 50 years' time.

Some greater control over information may well be justified. But this White House seems to be going too far, and may be damaging its own decision-making in the process.

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The Latinobarómetro poll

The stubborn survival of frustrated democrats

Oct 30th 2003
From The Economist print edition

Despite hard times, most Latin Americans are still democrats, but they are dissatisfied with their politics and mistrustful of their institutions—and of the United States

A BARE majority of Latin Americans are convinced democrats, but they are deeply frustrated by the way their democratic institutions work in practice. Latin Americans are also becoming less pro-American. While most believe the market economy is the only route to prosperity, they are ever more disillusioned with some aspects of free-marketry, such as privatisation. Those are some of the conclusions from the latest Latinobarómetro poll of attitudes in the region, published exclusively by *The Economist.*

The poll covers 17 countries in Central and South America. Latinobarómetro, a Chilean organisation, has conducted similar surveys each year since 1996, so the poll captures shifts in opinion both over time and between countries.

Democratic deficit 1

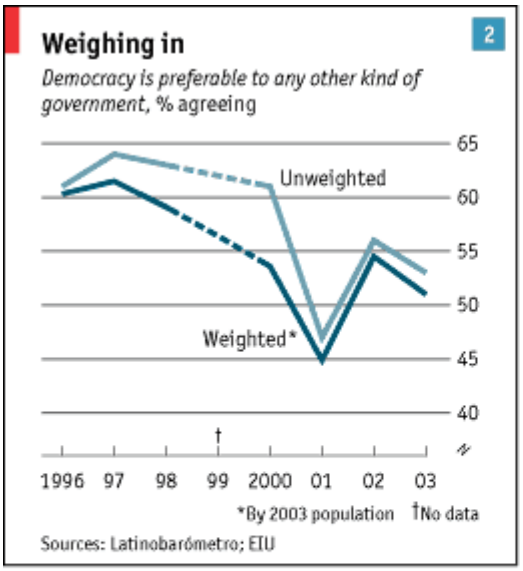
Which of the following statements do you agree with most? %

	Democracy is preferable to any other kind of government					In certain circumstances an authoritarian government can be preferable to a democratic one				
	1996	2001	2002	2003	*Change since 1996*	1996	2001	2002	2003	*Change since 1996*
Honduras	42	57	57	55	*13*	14	8	14	13	*-1*
Venezuela	62	57	75	67	*5*	19	20	12	15	*-4*
Mexico	53	46	63	53	*0*	23	35	20	14	*-9*
Uruguay	80	79	78	78	*-2*	9	10	10	9	*0*
Argentina	71	58	65	68	*-3*	15	21	17	18	*3*
Chile	54	45	50	51	*-3*	19	19	14	14	*-5*
Costa Rica	80	71	77	77	*-3*	7	8	8	7	*0*
Ecuador	52	40	49	46	*-6*	18	23	18	34	*16*
Nicaragua	59	43	63	51	*-8*	14	22	12	10	*-4*
El Salvador	56	25	40	45	*-11*	12	10	16	11	*-1*
Peru	63	62	57	52	*-11*	13	12	16	20	*7*
Bolivia	64	54	56	50	*-14*	17	17	20	22	*5*
Colombia	60	36	39	46	*-14*	20	16	11	14	*-6*
Brazil	50	30	37	35	*-15*	24	18	15	19	*-5*
Guatemala	51	33	45	33	*-18*	21	21	12	10	*-11*
Paraguay	59	35	45	40	*-19*	26	43	38	44	*18*
Panama	75	34	55	51	*-24*	10	23	16	18	*8*

Ranked by increase in support for democracy. Not including those who answered "it doesn't matter" and "don't know"
Source: Latinobarómetro

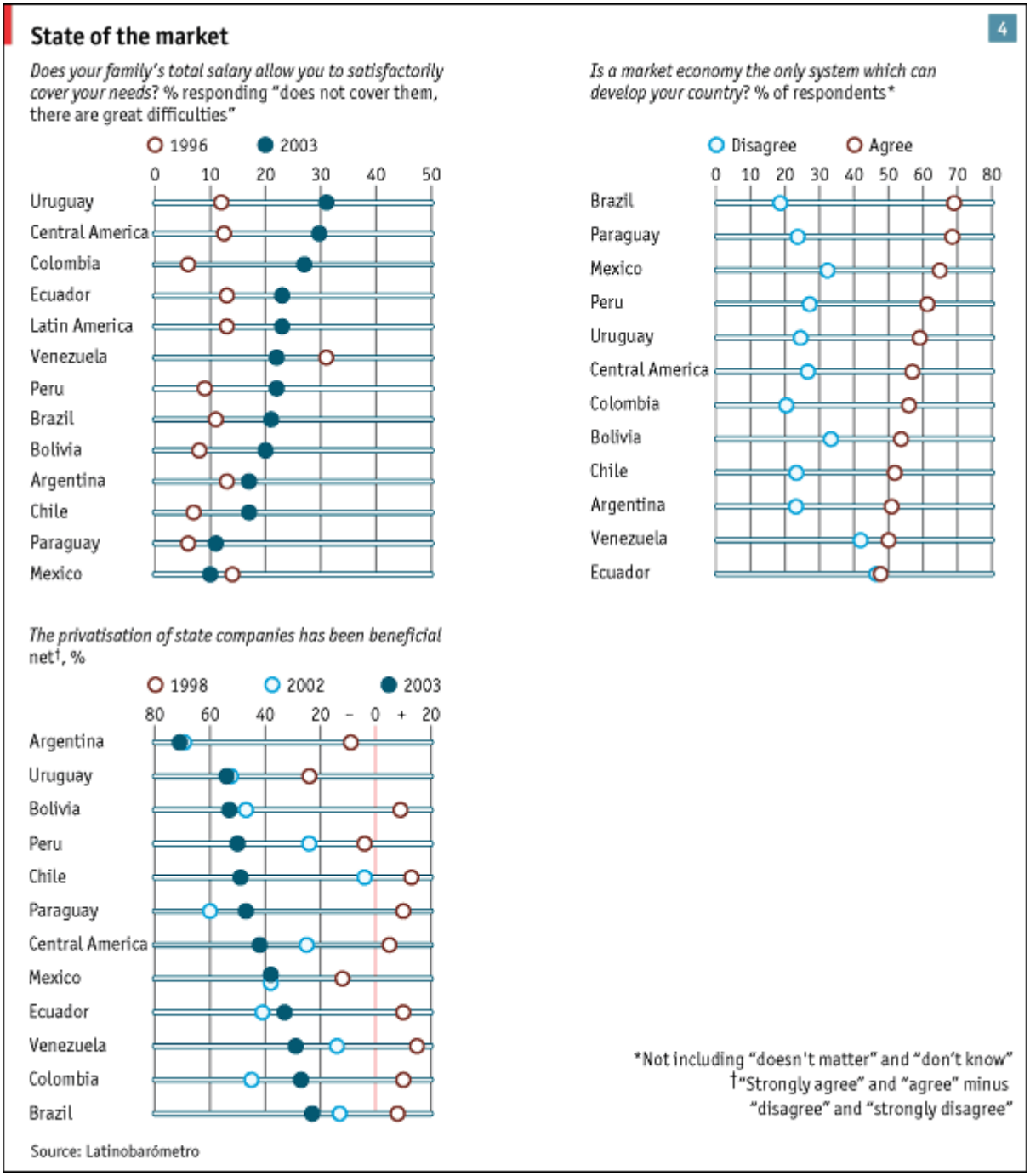
This year's results show some grounds for hope for democrats—and many grounds for concern. Despite five years of no overall growth in income per head in the region, one Latin American in two remains a committed democrat (chart 1, right). Just one in five believes that an authoritarian government might be preferable. Only Paraguay has an authoritarian majority. In seven countries, support for democracy has increased or dropped only slightly since 1996, but in ten it has fallen significantly. The poll suggests that roughly one Latin American in four is a potential authoritarian—what might be called "*caudillo* fodder". For example, 52% of the sample agreed with the statement that "I wouldn't mind if a non-democratic government came to power if it could solve economic problems".

But this year's poll is slightly less gloomy than last. Support for democracy has recovered in Argentina, which probably reflects both a strong, if incipient, recovery from the economic collapse of 2001 and the popularity of the new president, Néstor Kirchner. In Colombia, too, a popular president, Álvaro Uribe, may have boosted support for democracy. But in Ecuador, backing for authoritarianism is rising dangerously. In general, governments are slightly less unpopular than last year in South America, with an average approval rating of 41% compared with 32% last year, reflecting the popularity of Brazil's Lula as well as that of Mr Uribe and Mr Kirchner.



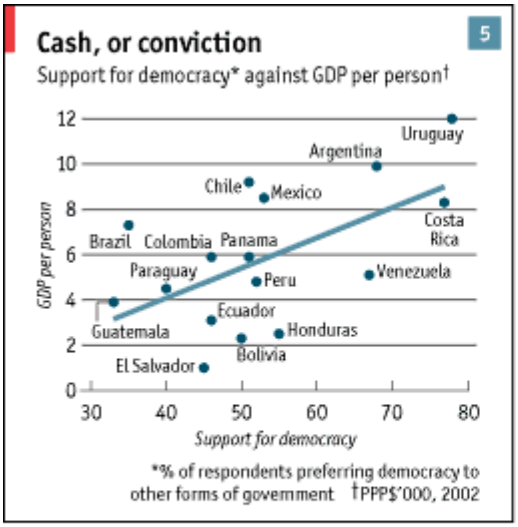
Only in two small countries, Uruguay and Costa Rica, can democracy be regarded as consolidated. In Uruguay, only slowly emerging from an economic slump brought on by Argentina's woes, four-fifths of respondents continue to support democracy even though 71% say the country's economic situation is bad.

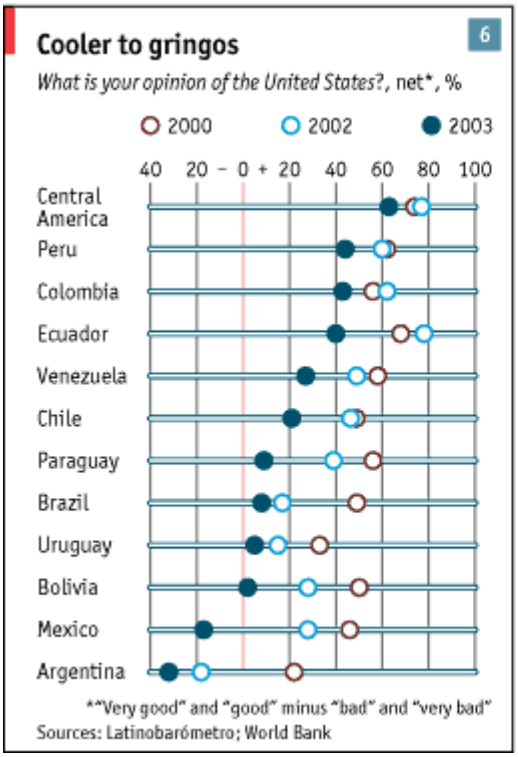
Across the region, dissatisfaction with the way democracy works in practice remains high (chart 3, above). That partly reflects economic worries: one in two of the sample say they fear being made redundant over the next 12 months. The number of respondents saying that their income does not cover their basic needs and that they have great difficulty, a subjective measure of poverty, has risen sharply (chart 4, below). Dissatisfaction also no doubt reflects the frustration of an increasingly educated population and, perhaps, a sense that democracy is not quickly creating a fairer society. Yet income is not the only factor determining support for democracy, which is lower in better-off Chile and Brazil than in poorer Peru and Honduras, for example (chart 5).



Despite the advent of left-of-centre governments in several countries, there is little evidence of a fundamental shift in economic opinion. In a dozen countries, a clear majority sees the market economy as the only route to developed-country status (chart 4), though opposition to it is high in Ecuador, Panama and Hugo Chávez's Venezuela. But almost everywhere, privatisation has fallen into ever-deeper disrepute (chart 4).

Latin Americans are also falling out of love with the United States (chart 6, below). In 2000, in South America and Mexico, 67% of respondents held a “good” or “very good” opinion of the United States. That figure has fallen to 53%, while 39% now admit to a “bad” or “very bad” opinion, up from 18% in 2000. Central America, however, is firmly pro-American: 76% hold a positive opinion, barely changed from 80% in 2000.





In general, Latin Americans are an increasingly mistrustful lot. They have long held their politicians in contempt. But until recently, they trusted such institutions as the Catholic Church, the media and, to a lesser extent, the armed forces. Now they do so much less (chart 7, right). Interestingly, however, the police are no more vilified than in 1996. Perhaps that reflects the first signs of a drop in crime (chart 7). Some 28% of respondents also thought that progress had been made in reducing corruption, with higher scores in Colombia, Nicaragua, Chile and Uruguay.

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Colombia's votes

A president rebuffed

Oct 30th 2003 | BOGOTÁ
From The Economist print edition

Álvaro Uribe's political agenda lies in tatters

AFP

The voters were smarter than the interior minister

Get article background

“A LESSON in humility” was how the cover of *Semana*, Colombia's leading news magazine, put it. That is something to which neither President Álvaro Uribe, nor still less his interior minister, Fernando Londoño, is accustomed. But last weekend, first in a referendum and then in local elections, voters delivered a slap in the face to both men, leaving the president's political agenda in tatters and Mr Londoño's job under threat.

Mr Uribe is—and will probably remain—hugely popular with Colombians, because of his vigorous efforts to restore order in a country torn by the violence of guerrillas, right-wing vigilantes and drug traffickers. But his attempt to turn his popularity into support for a complicated 15-point referendum on political and fiscal reform backfired.

The final result will not be known for days. Each of the 15 points was approved by between 80% and 90% of those who voted. But with 98% of the votes tallied, the turnout had fallen tantalisingly short of the 6.3m votes (or 25% of the total electorate) required for the referendum to pass. It was possible that four questions might just have attracted enough votes, but these concerned relatively minor matters: measures to ban from public office those convicted of corruption, to make public how each congressman votes and to cap top public-sector pensions, for example.

The main proposed constitutional reforms failed. They included a smaller Congress, a threshold of 2% of the vote for parties to win congressional seats and a two-year freeze in public-sector wages and pensions for all but the lowest-paid.

To make matters worse for Mr Uribe, opposition candidates did extraordinarily well in the local elections. Lucho Garzón, a former communist and trade-union leader, was elected as mayor of Bogotá, the capital, for the Democratic Pole, a newish left-of-centre grouping. Independents backed by the Pole also won in Cali and Medellín, the second and third cities.

Between them, the two votes have flung a large spanner in Mr Uribe's programme. The first casualty was

a proposal, floated by the president's allies, to change the constitution to allow him to stand for a second consecutive term in 2006. Once seen as unstoppable, this was voted down in the Senate on October 28th.

Second, having previously said he wanted to keep ministers in their jobs for four years, Mr Uribe faces pressure to make cabinet changes. The most vulnerable is Mr Londoño, an authoritarian conservative behind some of the government's most controversial measures, including a plan to amnesty right-wing paramilitary fighters. Mr Londoño was in charge of shepherding the referendum through Congress and the courts. According to Fernando Cepeda, a former interior minister, Mr Londoño doomed the referendum to failure by not insisting on an updated voter roll and by not arguing the case for blank ballots to be counted in the turnout.

Thirdly, the president now faces some unpalatable economic choices. In a televised speech on October 29th, Mr Uribe said he would ask Congress to approve tax increases and spending cuts aimed at restricting the fiscal deficit to its target of 2.8% of GDP this year and 2.5% next year. The government will also study using foreign exchange reserves to prepay debt.

Mr Uribe's chances of keeping the deficit and the public debt in check, and of persisting with political reforms, now depend on Congress, where his opponents will be emboldened. The president, nominally a Liberal, has paid little heed to party politics. Now he may have to. The Liberal leadership, headed by Senator Piedad Cordóba, opposes him on many issues. Ms Cordóba urged Liberals to abstain in the referendum, and backed the Democratic Pole's successful candidates in Bogotá and Cali rather than those of the president.

If Mr Uribe was the big loser last weekend, the big winner was Mr Garzón and the Democratic Pole. The Pole's municipal triumphs amount to a breakthrough for the moderate democratic left in a country where it has never been strong. Mr Garzón, who worked as a golf caddie as a teenager, models himself on Brazil's president, Luiz Inácio Lula da Silva, with whom he has hastily arranged a meeting. He has ambitions for the presidency in 2006. But first he will have to prove his competence in Bogotá. Colombia's capital has been well-governed for a decade, so Mr Garzón has something to live up to. He will be challenged for the Pole's presidential candidacy by Antonio Navarro, once a leader of the M-19 guerrillas and now a senator.

In a broader sense, the voting was an advertisement for Colombian democracy. Despite the referendum's absurd complexity, the differing votes for each question suggested a keen understanding of the issues by the minority who took part—and at least some of those who did not. Colombians also showed that while they are happy with their president, they are not prepared to give him a blank cheque.

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Jamaica

Vicious circle

Oct 30th 2003
From The Economist print edition

Of violent crime and brutal police

RIOTS, barricades and police killings are all too common in Jamaica. But they are normally associated with the capital, Kingston, and rarely trouble the island's tourist paradises on the north coast around Montego Bay, the second city. Last weekend, however, tourists had to scurry to the airport by boat, or make a dash down the runway in a tour bus, after the main road out of Montego Bay was blocked by mayhem.

The trouble started when two men in their sixties, one a taxi driver and the other a newspaper vendor, were shot dead at 4am by police who had mistaken them for armed robbers. The rioting was quickly over, but it highlighted once again Jamaica's chronic problems of violent crime and violent policing.

Since 1999, 638 people have been shot dead by the police in a country of 2.6m. Last month, a United Nations special rapporteur wrote of a “distinct impression” that some of these cases were “extrajudicial executions” (ie, murders). Since 1999, 23 police officers have been charged with murder or manslaughter, but none has been convicted.

Life is not easy for the island's police. Since 2000, 47 have been killed on duty, most of them shot dead by bandits. In September, the naked and decomposed torso of a policeman was fished out of a river near Kingston. Three of the seven men suspected of chopping him up were later killed by the police.

After almost 800 murders so far this year, some Jamaicans are calling on P.J. Patterson, the prime minister, to impose a state of emergency. “We as a people have become totally ungovernable,” the chief justice complained last month.

Jamaica's gang violence is fuelled by the drug trade. According to Peter Phillips, the national security minister, some 100 to 120 tonnes of cocaine pass through each year, bound for Britain and the United States. Jamaican “yardie” gangs play a big role in retail distribution of drugs in places as far apart as London and Washington, DC. Marijuana is a profitable sideline. The other big earner for the gangs is extortion. Market vendors, shopkeepers, and, especially, construction companies pay gang leaders, known as “dons”, for “security”.

The “dons” also like to pick who works on building sites, a favour that helps to cement their control over the slums. All this adds perhaps 40% to project costs, up from 25% a few years ago. That amounts to an unofficial tax of perhaps $100m a year on the building industry, and it gives rise to violent turf wars between rival gangs.

The gangs recruit some of their members from overseas. Around 1.5% of the adult men in Jamaica are criminal deportees, sent home after serving a prison sentence in the United States or Britain. Small-time drug dealers sink fast in the tough Kingston slums, hustling for a living. Bigger fish, with arsenals of firearms and overseas contacts, are said to be trying to take control of places like Montego Bay.

Since the 1970s, most gangs have been closely enmeshed with the island's two main political parties. But there are a few signs of change. Rather late in the day, building firms and government officials are now talking openly about the problem of extortion. They have drawn up a plan to deal with it. In the case of at least one big road project, the dons have been turned away. Some businesses are starting to fund genuine community projects instead. Police commanders, too, are at last talking of reform. They have begun to train recruits in such matters as community policing and domestic violence. But cash is short: interest payments on debt eats up 60% of Jamaica's tax revenues.

Jamaica's government knows that any repeat of the trouble in Montego Bay could do far more damage to the island's economy than any number of deaths on the seedy side of Kingston. Mr Phillips cut short an overseas trip to visit the dead men's families, along with the island's police chief. Mr Patterson has promised “transparent justice without delay” in the case. If it happens, that would be a welcome innovation.

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Logging in Ecuador

Cut down

Oct 30th 2003 | QUITO
From The Economist print edition

The courts versus the rainforest

Get article background

SPANNING the Amazon rainforest, the Andes, coastal lowlands and the Galapagos islands, Ecuador is the world's most biodiverse country in relation to its area. Its forests are home to bears, jaguars, a profusion of birds and many rare plants. Yet Ecuador is also losing its trees faster than anywhere else in South America. Deforestation looks set to continue apace: on October 28th, the country's Constitutional Tribunal, under pressure from timber companies and their champions in Ecuador's Congress, struck down an innovative and effective scheme to outsource the regulation of logging.

According to official figures, 150,000 hectares (370,000 acres) of primary forest are felled each year; unofficial sources put the figure twice as high. This means that half of the forests have been lost in the past three decades, much of them to illegal logging. Ecuador's Wood Industry Association reckons that 70% of all timber sold in the country is illegally felled.

The government is always short of cash, and forestry control has never ranked high among its priorities. So four years ago, the Environment Ministry, with help from the Inter-American Development Bank and the German government, came up with a scheme to delegate control of logging to the private sector and civic groups.

The first stage involved setting up a body called Green Surveillance, comprising five non-governmental organisations, the police, the army and the ministry itself. This body was given responsibility for policing the transport of illegal timber. The team, which financed itself from the sale of confiscated wood, captured almost six times as much illegal timber last year as the ministry had when it acted alone.

This angered some loggers, but the real problems started when the government hired Société Générale de Surveillance (SGS), a Swiss company, to administer logging licences in return for a tax on legal sales of wood. SGS has been the target of violent protests: staff have been attacked, offices ransacked and computers stolen. Despite repeated requests, the government has provided no protection, nor has anyone been arrested. The loggers also staged protests and unleashed a wave of lawsuits.

The timber industry claims to be in favour of controls on illegal logging. But in practice, it has been the main opponent of the new system. Timber companies claimed that it breached the constitution, by handing over a government function to a private firm. Environmentalists say that the timber companies buy illegal timber through middlemen, and in some cases themselves fell timber without permits.

Opponents reckon that the Constitutional Tribunal's decision was not based on jurisprudence. Ecuador's judiciary is notoriously political, and corrupt. Its latest decision will hamper the attempts of President Lucio Gutiérrez to modernise government. Repeated attempts to open Ecuador's flagging oil, telecoms and electricity industries to private investment have foundered partly on political opposition, but also on the fears of investors that they would not be protected by the courts.

Ecuador was judged to be the second most corrupt country in Latin America in the annual ranking published last month by Transparency International, a pressure group. Mr Gutiérrez has repeatedly promised a clean up, and that the laws will be upheld. That is easier said than done.

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Malaysia

After Mahathir

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From The Economist print edition

There was too much bad mixed in with the good in Dr Mahathir's long reign. His successor will struggle to redress it

ON THE face of things, Mahathir Mohamad's last month as prime minister of Malaysia was typical of his 22-year tenure. He paraded his authoritarian instincts by hectoring the parliament of East Timor about the perils of democracy. With characteristic combativeness, he rekindled a 13-year-old war of words with Australia and labelled George Bush a bare-faced liar. The global uproar he created by lifting a page from the Protocols of the Elders of Zion and declaring that Jews rule the world exemplified his most chauvinist side. And as if he had not, over the years, already stirred up enough controversy to last a lifetime, he promised journalists that he would continue “to say nasty things about other countries” after he stands down on October 31st.

But while Dr Mahathir's style may have been consistently authoritarian and abrasive, his policies have changed beyond recognition during his decades in office. He started his career as an advocate of special privileges for fellow Malays (the biggest of Malaysia's many ethnic groups), but recently began dismantling some of them. Having subsidised and lionised Malaysia's captains of industry, he has lately started to promote small firms and professional managers as the main engine of economic growth. And despite presiding over a religious revival among Malay Muslims, he now thinks the “greening” of Malaysia has gone far enough. Abdullah Badawi, the new prime minister, says he will stick to his predecessor's policies. But is he an acolyte of the old Mahathir or the new?

For the time being, most Malaysians are concentrating on eulogising Dr Mahathir. Kuala Lumpur this week was festooned with banners thanking him and wishing him well, while emotional testimonials to his achievements fill the very newspapers he cowed with restrictive press laws. Editorials expatiate on his success in improving the lot of the Malay majority, preserving ethnic harmony, stimulating the economy and nurturing a sense of national pride. Even less sycophantic Malaysians seem more than slightly shell-shocked by the idea that their ever energetic and irascible leader is finally stepping down.

There have been a few critical voices, however. Mohamad Ezam Mohamad Nor, from the opposition Keadilan party, points out that Dr Mahathir has severely undermined Malaysia's constitutional checks and balances. In 1988, after an adverse ruling, he fired the chief justice and two other senior judges; since

then, the courts have rarely crossed the government. He also restricted the powers of the sultans and rajas, who take it in turns to serve as king and thus head of state. He locked up political opponents (including Mr Ezam), banned public protests and stifled criticism with a barrage of repressive laws. Nor was he in the least bit apologetic about this assault on civil liberties: as he opined to the East Timorese, unions, demonstrations, the press and opposition parties all need to be kept under strict control if democracy is to bring prosperity to poor and ethnically divided developing countries. Malaysia is probably now the most repressive country in non-communist South-East Asia, after Myanmar.

Dr Mahathir certainly did bring prosperity. Malaysia's income per head has risen from $2,320 when he took office to $8,920 today—a bigger rise than in most developing nations, though a much smaller one than in neighbouring Singapore (see chart). To this day, Malaysia provides a better business climate than any other country in South-East Asia, save, again, for Singapore. What's more, Dr Mahathir managed to harness that growth to increase Malays' share in the economy without completely alienating the Chinese businessmen who dominate it.

But K.S. Jomo, an academic at the University of Malaya, argues that the policies that brought about Malaysia's transition from an exporter of natural commodities into a manufacturing hub were in place before Dr Mahathir came to office. So, too, were the job-promotion policies for Malays. His industrialisation programme, which hinged on the creation of a “national” steel producer and carmaker, proved an expensive flop. He also had a weakness for pricey prestige projects, the latest of which, a much-delayed monorail, is now creaking and wheezing its way above the streets of Kuala Lumpur. He personally supervised the design of Malaysia's absurdly over-the-top new capital, Putrajaya, dividing up the city with artificial lakes and then criss-crossing them with bridges. Most of these schemes, along with copious public funds, were entrusted to favoured Malay businessmen, fostering a culture of cronyism.

Indeed, Dr Mahathir blames his recent policy shifts on Malays' failure to take advantage of their chances. At any rate, he has lost much of his Malay-nationalist ardour. At the meeting at which he first announced his resignation, in June last year, he berated Malays for their lack of initiative, and warned them that their preferential treatment would not last for ever. He has already started to dismantle the formal system of racial quotas for university places, although a two-track school system still gives Malays an advantage. He also ordered that maths and science be partly taught in English rather than Malay—a move which caused consternation within Dr Mahathir's own party, the United Malays National Organisation (UMNO). Most significantly of all, he has stopped going along with demands of the Islamic opposition party, PAS, that religion be given a more prominent place in public life.

A hard act to follow

All this puts Mr Badawi in an awkward position. On the one hand, he has promised to stick to Dr Mahathir's policies; on the other, he doubtless would like to shore up support within UMNO by reviving some of the Malay-nationalist measures Dr Mahathir has been dismantling. Dr Mahathir seems to have chosen Mr Badawi as his deputy precisely because he did not command a loyal following within UMNO, and therefore was no threat to Dr Mahathir's leadership. But that now leaves Mr Badawi himself vulnerable to a challenge for the party leadership—especially if UMNO does not perform well in the elections due by the end of next year, though expected as soon as March or April.

AFP

Mr Badawi's electoral chances are good, however. He is personable and popular, and universally referred to by an affectionate nickname, Pak Lah. He is widely considered honest, although opposition politicians have claimed that officials are favouring a company controlled by his brother. The descendant of a long line of distinguished clerics, he studied Islam himself, and, unlike Dr Mahathir, can quote the Koran in Arabic, which should help him lure away some supporters from PAS. So should the events of September 11th, and Malaysia's own problems with Muslim terrorists, which have fuelled suspicion of Islamic parties in some quarters.

Anyway, UMNO's performance at the last election, in 1999, was its worst ever, and so should be easy to improve on. The economy, which had been shrinking, is growing again. The bitter row over the jailing of Dr Mahathir's then deputy, Anwar Ibrahim, has subsided (though Mr Anwar is still in prison). Voters who had grown disenchanted with Dr Mahathir might welcome a new face. The supposedly neutral Election Commission has also improved the governing coalition's chances with a spot of helpful redistricting. The next parliament will contain 25 new seats, almost all of which have been assigned to government strongholds.

Badawi: nice chap, but any good?

The opposition, meanwhile, is not making things any easier for itself. PAS insists on harping on about its plans for implementing full-blown Islamic law, including the chopping-off of hands, instead of sticking to themes with broader appeal, like corruption. Such talk has already scuppered an alliance with the Democratic Action Party, which relies on non-Muslim voters for most of its support. PAS is also limbering up for a fight with its other supposed ally, Keadilan, about which constituencies each party should contest. The opposition's only hope, says Mr Ezam, is that disgruntled UMNO members will sabotage their own party's election campaign.

The idea is not so far-fetched. UMNO has a history of infighting. Malcontents almost deposed Dr Mahathir himself in 1987. Mr Badawi will soon have to appoint one of UMNO's three vice-presidents as his deputy, and so leave the other two feeling hard done by. As party leader, he also has the delicate task of choosing UMNO's candidates for the election. If he selects too many of his own men, he will alienate the other party bosses; if he selects too few, he will not have the support to withstand a leadership challenge.

Mr Badawi must be reasonably adroit at handling such intrigue, or he would not have survived as Dr Mahathir's deputy. He rose to the top by keeping his head down and offending no one—and if his stints as a stand-in for Dr Mahathir are anything to go by, he plans to run the country in the same way. He has said little about what he will do in office beyond the usual formulaic pledge to fight corruption. He certainly does not seem to be a champion of civil liberties: as home minister, it was his job to approve all the warrants detaining the government's critics without trial. Nor does he have much experience of, or many ideas about, economics. His supporters say he has only kept quiet out of deference to Dr Mahathir, and will now be free to make his own mark. Given how fiercely Dr Mahathir set his stamp on the country, Malaysians might not mind a leader who leaves little trace.

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Pakistan's economy

Feeling undervalued

Oct 30th 2003 | KARACHI
From The Economist print edition

Political gloom makes economic optimism hard to sustain

Get article background

THE world's best-performing stockmarket in 2002 is about to put on weight. The sale to the public, from November 10th, of up to 5% of the shares in the state-owned Oil and Gas Development Company (OGDC) will lift the total capitalisation of the Karachi Stock Exchange by about 10%, to about $20 billion. This highlights three truths about Pakistan's economy: there has been a stockmarket boom; there is a government committed to liberalising reform, including privatisation; but the market and the economy remain too small for anybody outside Pakistan to care very much.

This irks the technocratic finance team in the government installed by General Pervez Musharraf, who took power in a bloodless military coup four years ago. They point to likely economic growth of over 5% this year and next, subdued inflation and nearly a year's imports-worth of foreign-exchange reserves. They feel cocky enough to want to repay early some loans from development banks and want to take Pakistan—a financial pariah as recently as 1998-99—back to the international bond market in the next few months.

The government basks in the praise of Pakistani businessmen and multilateral financiers. This week, the IMF approved $247m in new disbursements to Pakistan. But much domestic opinion distrusts its free-market reforms and points to continuing high—and by some estimates rising—levels of poverty. About a third of the population lives below the poverty line. Abroad, most eyes remain transfixed by terrorism, sectarian violence, political instability and the threat of war with India.

Hafeez Shaikh, Pakistan's urbane privatisation minister, hopes the growth in the stockmarket will “make people take notice of Pakistan”. But it remains tiny and in recent weeks has fallen, partly out of worry about how OGDC will be absorbed. Such volatility is not surprising. The market rose by 112% last year and at one point this year had climbed by another 70%.

The rise was partly fuelled by money sent home by Pakistanis abroad, nervous about their future in the West after the September 11th attacks and blocked by new restrictions from using traditional, unofficial channels for transferring funds. Their money has also helped push up property prices and stoke consumer demand. This has led to the speculative hoarding of locally assembled cars, now only available for immediate delivery at a premium of 10-20% over the normal price (imported cars incur huge import duties).

The new money has not, however, bought a boom in investment in industry. There are exceptions, notably textiles, which account for two-thirds of Pakistan's exports. According to the Karachi Chamber of Commerce, the industry has invested more than $3 billion over the past four years, readying itself for the expiry in 2005 of the Multi-Fibre Arrangement that governs international trade in textiles.

In other businesses, caution prevails. Government disposals aside, few new firms are seeking listings on the stock exchange. Foreigners, meanwhile, mostly continue to shun both portfolio and direct investment in the country. Pakistani bankers blame the foreign press for portraying the country as lawless and dangerous. Some of their foreign business partners even insist on meeting in Dubai.

Their fears of sectarian and terrorist violence may indeed be

exaggerated. But in the course of October, there were riots in a number of cities after the assassination in the capital, Islamabad, of the leader of a proscribed sectarian group. Foreigners also worry about the stability of a government locked in a constitutional stalemate with the elected national assembly, a drift towards religious extremism in two provinces ruled by Islamist parties and about relations with India.

These are much improved since a tense confrontation last year. But despite what Pakistan described as its "positive" response on October 29th to Indian offers of measures to enhance contact and build confidence, there is little progress towards a resolution of the underlying dispute over Kashmir. Defence spending is likely to remain high. General Musharraf has said Pakistan will not be left behind by India's recent purchase from Israel of an advanced airborne radar system.

Even short of war between the two nuclear powers, the lack of air and rail links with India—severed by India in retaliation for alleged Pakistani complicity in terrorism—imposes heavy costs on Pakistan. Aviation talks are to resume next month. Although the ban hurts it far more than it does India, Pakistan said this week that it wants to impose tough conditions. It appears that even a government created by a career soldier is perfectly capable of shooting itself in the foot.

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Afghanistan

Clearing out the warlords

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But will the result be chaos?

AFGHANISTAN'S interior minister, Ali Ahmad Jalali, is not afraid of having a go at the country's unruly strongmen. In the spring, he tried to take on the warlord of the west, Ismail Khan. In the summer, he helped get rid of the hapless warlord of the south, Gul Agha Sherzai. Now he is hoping to drag to Kabul the twin warlords of the north, Rashid Dostum and Atta Mohammed, and run their fiefs with a man of his choosing.

Under the new proposals, Messrs Dostum and Atta's lieutenants will be cleared out of the top positions in Balkh, Samangan, Sar-e Pol and Jozjan provinces. The warlords themselves are supposed to take up new posts in Kabul—though which ones are unclear, since the lucrative ministries are already taken. Ordinarily, this would be good news. But the worry is that it could end up destabilising the north. Taking out the big men may only encourage the little ones to slug it out more violently.

Reports of 60 or so dead in fighting early in October were inflated, and a ceasefire negotiated with British and United Nations officials has more or less held in the northern capital of Mazar-i-Sharif since then—although promises of troops stepping back have so far not been kept. But the situation away from Mazar looks less settled. A recent rocket attack on a pick-up truck killed a dozen innocents. Mr Dostum's lot allege the target was one of their commanders.

Mr Jalali is gambling that his ministry can fill the power vacuum. He has brought in an outsider to oversee Mazar, and several hundred Kabul police to man sensitive checkpoints. Locals, fed up with having to pay backhanders to the warlords, have welcomed the police so far, unlike the local militias. But this is about all Mr Jalali can offer. He will find it hard to touch the economic “enterprises” that underwrite the two warlords or to intercept their dealings with neighbouring Central Asian countries. Nudging warlords towards a Russian-style oligarchy, as Mr Jalali is tacitly doing by offering them status in Kabul, is an improvement. The problem is that Afghanistan is too poor to offer much opportunity for warlords looking to transform themselves into robber barons. Besides, disarming them looks like a pipe dream. The two men may have set a price for demobilising their troops above what donors can afford.

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Military bases in Kirgizstan

Sometimes, two's a crowd

Oct 30th 2003 | ALMATY
From The Economist print edition

The republic now has a Russian base, as well as an American one

WHEN Russia withdrew its last border troops from the ex-Soviet republic of Kirgizstan in 1998, it was hard to imagine that Russian soldiers would be back any time soon. But last week, Russia's President Vladimir Putin attended the official opening of a Russian air base in Kant, near the capital, Bishkek. The base is meant to boost security in the region by “deterring terrorists and extremists of all kinds”. More than 500 servicemen and civilians are scheduled to be deployed at what will be Moscow's first new military installation on foreign soil since the break-up of the Soviet Union.

This move does not simply bolster Russia's weakened hand in Central Asia, historically viewed by Moscow as its backyard. It has also made Kirgizstan a rare example of a country that has both a Russian and an American military base on its territory—and only 30km (20 miles) apart. Following the September 11th attacks, the American-led anti-terror coalition set up a base at Kirgizstan's Manas airport near Bishkek, from where missions have flown to Afghanistan. Though it had Mr Putin's blessing, this was widely seen as a geopolitical irritant for Russia.

Two years later, some senior Russian officials, most notably the increasingly annoyed defence minister, Sergei Ivanov, feel that the Americans are overstaying their welcome in Central Asia. Mr Putin emphasised that the two bases would complement each other rather than provoke rivalries. After all, he said, the international coalition is supposed to leave after its operation in Afghanistan is completed, whereas Russian forces in Kant—which are part of the rapid-reaction forces of the Commonwealth of Independent States' Collective Security Treaty, which includes Russia, Armenia, Belarus, Kazakhstan, Kirgizstan and Tajikistan—will be stationed in Kirgizstan on a permanent basis.

Whether the Americans, who have a second Central Asian military base in Uzbekistan, will ultimately choose to leave this volatile and energy-rich region remains to be seen. That would not only cede ground to Russia, but also to China, which has been trying lately to buy Kazakhstani oilfields and has conducted military exercises in Kirgizstan.

In fact, Moscow's timing for the opening of Kant could not have been better. With its troops bogged down in Iraq, America's priorities have shifted. The number of coalition forces at Manas has already dropped from around 2,000 to 1,100, only two-thirds of whom are American. But the Kirgizstanis still have to figure out how they will balance the great powers they have invited on to their soil if their interests were to start diverging.

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Japan's election

Look young, please

Oct 30th 2003 | TOKYO
From The Economist print edition

Junichiro Koizumi is counting on fresh faces to carry him to victory

Get article background

LIKE water down a mountain, political decisions in Japan have long flowed in one direction, from elderly politicians to their long-suffering junior colleagues. But Junichiro Koizumi is attempting a geological shift. In September, the 61-year-old prime minister shocked and impressed Japan by naming Shinzo Abe—at age 49, a political toddler—as the Liberal Democratic Party's secretary-general: a powerful post from which to lead the party's campaign for the elections on November 9th. This week, in case his point was unclear, Mr Koizumi ignored the protests of 85-year-old Yasuhiro Nakasone, a former prime minister and LDP heavyweight, by declaring him past his sell-by date and bouncing him from parliament. Fittingly, Mr Koizumi sent Mr Abe to deliver the message.

Mr Koizumi can claim merely to have been following the rules by ousting Mr Nakasone. The former prime minister is well beyond the LDP's age limit of 73 for proportional-ballot seats—which let privileged candidates ride the party's coat-tails rather than compete in single-seat districts. Last week, another former prime minister, 84-year-old Kiichi Miyazawa, stepped down quietly at Mr Koizumi's request. Still, Mr Koizumi could have made an exception for Mr Nakasone had he wanted. In 1996, after all, yet another prime minister, Ryutaro Hashimoto, had promised the man a proportional seat in parliament “for life”. Mr Koizumi, however, is more interested in winning than in honouring his party's traditions. Over the past few weeks he has moved deftly and firmly to deal with his most glaring weakness in the campaign: the LDP gerontocracy.

Just a few months ago, Naoto Kan, leader of the opposition Democratic Party of Japan (DPJ), was licking his lips at the chance to make age an issue. Although he is only four years younger than Mr Koizumi, the DPJ's candidates are, on average, eight years younger than their LDP rivals. One of the clearest examples of the DPJ's relative youth is its secretary-general, Katsuya Okada. At age 50, Mr Okada is 16 years younger than Taku Yamasaki, the LDP's secretary-general until September.

Mr Koizumi neutralised the threat by promoting Mr Abe, who besides being young has something that few DPJ members, Mr Okada included, can match: national popularity. His tough line on North Korea, which admitted last year to a long-standing habit of abducting Japanese nationals, has boosted his reputation. Many female voters have taken a shine to him. The DPJ, by contrast, lacks anyone of similar appeal. Mr Kan, for example, is little match for the prime minister in exploiting mass media.

The DPJ wants to make up for this lack of star power by exploiting its overall youth and the absence of cosy connections that this implies. Roughly a third of LDP candidates, for example, are second- or third-generation politicians—including Mr Koizumi himself—whereas few of the DPJ's candidates have inherited their districts. The competing secretaries-general epitomise the contrast: Mr Abe's father was a cabinet member, and his grandfather prime minister; Mr Okada's father is a businessman. Many of the LDP's parliamentarians, moreover, really are old, and have been in power long enough to have strong vested interests in the system that both Mr Koizumi and the DPJ are campaigning against.

Mr Abe says little about economic and political reform publicly, and does not appear deep down to share his boss's reformist bent. With Mr Koizumi, however, image is everything. He has recently appointed the youngest Japanese cabinet for decades. The nightly news lately has featured the youthful prime minister; the young and popular Mr Abe; a young transport minister battling and eventually sacking the unpopular head of a public road company; and a pair of ageing LDP prime ministers being put out to pasture. To compete with that, Mr Kan is going to need some pretty dazzling tricks up his sleeve.

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Rebuilding Iraq

Amid the bombs and the rubble, the country is still slowly on the mend

Oct 30th 2003 | BAGHDAD
From The Economist print edition

EPA

It is proving much harder than the Americans expected, but the rebuilding of a shattered country is still going steadily ahead

Get article background

EVERY day, small propeller-driven aircraft corkscrew steeply down into Baghdad airport, lessening the risk of being hit by shoulder-fired missiles. The war-blasted facility is back in full working order, and half a dozen big airlines have been licensed to use it. But the terror threat remains too pressing to admit anything but these costly charter flights, underwritten by the American government, from Amman, neighbouring Jordan's capital.

To the motley bunch of aid workers, reporters and spies on board, the flights would give travel to Iraq a semblance of the ordinary, were it not for the sharp approach angle and the greeting party of grim, gun-toting ex-Ghurkas at Baghdad's near-deserted terminal. Similarly, life in the country, for most of its citizens, would be approaching normal patterns, were it not for uncertainty about the future, anxiety over crime and violence, and the heavy footfall of foreign soldiers.

For many Iraqis, living standards have already risen a lot. Boosted by government make-work programmes, day labourers are getting double their pre-war wages. A university dean's pay has gone up fourfold, a policeman's by a factor of ten.

Before the war, Kifah Karim, a teacher at a Baghdad primary school, took home monthly pay equivalent to just $6. Her husband earned $13 as a factory overseer. Today, with a combined income of close to $450, they no longer rely on gifts of meat from Mrs Karim's brother, a butcher, to buttress a diet dominated by government food rations. They buy 2-3 kilos of meat a week, and have recently purchased a new fridge, a television, a TV satellite dish, a VCR and a CD player.

Stacks of such goods now crowd the pavements of Baghdad's main shopping streets, shaded by ranks of bright new billboards. Prime commercial property, says a real estate broker in the Karada district, easily fetches $1,000 a square metre, four times the level this time last year. For sure, he says, there is some

risk in securing proper legal title, but even under strict Baathist rule there lurked the danger that some official would take a shine to your property and seize it.

Such price rises have yet to spur much inflation. Subsidised food and petrol remain in adequate supply. Some prices have even dropped. Used cars cost one-third less than last year, the market glutted by a flash-flood of imports. Conversely, porous borders have pushed meat prices up 30%, as smugglers sneak their flocks to more lucrative markets in Saudi Arabia and elsewhere. Baghdadis complain, but Bedouin herdsmen are doing just fine.

Yet the downward trickle has not reached everyone. Estimates of unemployment range from 60-75%. Along with around 1m salaried civil servants, some 80,000 policemen and security guards now earn decent wages, 50,000 Iraqis are on long-term reconstruction projects, and double that number profit as day labourers. But Iraq's workforce numbers some 7m. The disbanding of the army alone put 400,000 on to the street, where they get a meagre and temporary dole. Some 40,000 may be rehired, but the rest are fodder for unrest or worse (see article).

The short-term economic priority, everyone concurs, is fixing the appalling infrastructure. Slowness on this score, reckon many Iraqis, has gained America more ill-will even than its soldiers' itchy trigger fingers. Yet here, at last, real progress is being made—and that is without counting the looming bonanza of $33 billion in aid that Iraq has just been promised at last week's conference in Madrid.

Brighter future?

The southern capital, Basra, for example, got only two-to-four hours of electricity a day before the war—and now has a power surplus. Baghdad still works to a regime of three-hours-on/three-hours-off, but the country as a whole is producing as much power as before the war. By spring it will be up by 25%. Within three years, if America sticks to its plan of sinking $5 billion-plus into the sector, power output should have more than doubled.

The repair trajectory for telecoms is even steeper. By February, promises Clifford Mumm, who heads Bechtel's operations in Iraq, all ten bombed Baghdad exchanges will be working, as well as the national trunk system and an international satellite link. By then, three private cellphone networks should be operating.

Oilfield repairs have also proceeded apace. Production capacity, reduced to one-third of pre-war levels by May, is now up to 75% and on target to match them by March. Exports, now at 1.2m barrels a day, have been held up by sabotage, but Iraqi oilmen see this as a temporary obstacle. It will take years, and billions in investment, before Iraq reaches its full potential. But even if it hits the modest target of 2m barrels a day in exports by mid-2004, its crude could be earning $20 billion a year.

Mr Mumm admits that his giant American engineering firm, like others contracted by USAID to kick-start Iraq's infrastructure, made a slow start. Bechtel, whose array of contracts, worth $1 billion, covers repairs of everything from ports to railroads to sewage plants, soon dropped its idea of selecting big international subcontractors and has now funnelled half the value of its work to Iraqi firms.

With Bechtel in the running for a planned second raft of big-time repair jobs worth another $1.5 billion, Mr Mumm enthuses over the challenge. Patching up the old, rather than installing new equipment, is what he calls a “geek's dream”. As for charges that the whole process has been too cumbersome, he asks how long it took Germany to knock its former communist eastern part into shape. “Iraq is far worse, and they weren't getting shot at.”

Which, unfortunately, is the point. Working in Iraq may, in fact, be little riskier than in Algeria or Colombia, but its violence certainly puts on a damper. Huge hazardous-duty bonuses for expatriate workers, war-risk insurance, $1,000-a-day bodyguards and mine-clearance needs at many worksites can add a good 10% to the cost of business. And this does not include time lost at checkpoints, in assembling convoys, or being mired in traffic when tanks block roads.

The greater cost, however, is incurred by fuzziness over Iraq's future. Big oil companies, for example, have yet to be lured. They tend nowadays to look at the lifetime capacity of a field, not at the chance of a quick profit. “You're talking about a horizon of 10-12 years, minimum,” says a European businessman searching for deals. Despite the high technical calibre of Iraq's oil ministry, outsiders are not yet confident that long-term contracts will be watertight. Similarly, the promulgation of laws to fling open the

Iraqi market to foreign investment has tempted few punters.

And then there is the larger political challenge of reshaping Iraq. Plenty of well-wishers share President George Bush's vision of Iraq as a bastion of democracy to inspire the backward Middle East, but opinion polls also illustrate the ambivalence of many Iraqis. A survey out this week revealed that, while most endorse democracy and women's rights, many wonder whether democracy can work in Iraq. Most would like some form of Islamic rule—and want the coalition forces out. But three-quarters of Iraqis also think that in five years they will be better off.

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About sponsorship

The Iraqi death toll

Counting the bodies

Oct 30th 2003
From The Economist print edition

How many Iraqis were killed in the war?

GEORGE BUSH'S declaration of the end of “major combat operations” on May 1st seems less apt with every fresh killing in Iraq. The human cost of the conflict is still rising on all sides—but the overall price paid by the Iraqis is hard to measure.

Counting enemy fatalities in war is tricky: estimates made immediately after the Gulf war in 1991, for example, turned out to be inflated. Eyewitness accounts can exaggerate death tolls. For the 2003 war, the fact that some Iraqi units were bombed much more heavily than others makes extrapolations unreliable, and the large number of deserters complicates the calculations. Iraqi guerrilla tactics made it especially tough to sort genuine civilian casualties from military ones. The Americans say they kept no tally of their own.

But as a recent report by an American think-tank, the Project on Defence Alternatives, points out, it is still worth trying to measure the terrible cost in lives. The report relies on surveys of hospital, burial-society and funeral records by journalists and charities, news reports, and the testimonies of soldiers and other witnesses. There is still some guesswork—for instance, for the number of unrecorded burials, victims entombed in collapsed buildings, and Iraqi troops killed by coalition bombs. But the report makes allowances for overlap between its sources and is strict in its definition of non-combatants.

It reckons that, from the start of the invasion to the fall of Baghdad, between 10,800 and 15,100 Iraqis were killed, of whom some 3,200-4,300 were non-combatants, a higher proportion (and a bigger toll) in the recent war than in the earlier one.

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Iraq's bombs

Whodunnit?

Oct 30th 2003 | BAGHDAD
From The Economist print edition

Getty Images

The bombers are hard to identify but the clues are emerging

BASSAM HASHEM was lucky. He had just come home from taking the children to school when the bomb exploded, hurling shards of window-pane with enough force to embed them in his living room walls. Mr Hashem escaped with cuts. But two neighbouring houses were flattened, leaving all 24 inhabitants injured as well as homeless. One did not survive, so joining the 40 other Iraqis, and one American soldier, who lost their lives in the four huge suicide bombings that shocked Baghdad on October 27th, the first morning of Ramadan. The soldier's death marked a watershed: more Americans have died in Iraq since than during the conventional war, when 114 perished.

The attacks were carefully planned and synchronised. The explosives-packed vehicle that damaged the headquarters of the International Committee of the Red Cross, where ten passers-by and two guards were killed, was disguised as an ambulance. The three other targets were all police stations. The attackers wore police uniforms, and evidently studied access roads to find the worst-guarded approaches. At a fourth police station, alert officers killed one assailant and wounded another before they had time to ignite either their car or the explosives strapped to their bodies.

The bloody start to the Muslim fasting month, which some American officials now darkly refer to as “Bombadan”, represented a disturbing rise in the scale and daring of terror attacks. The day before the bombings, a home-made launcher had fired six rockets at a hotel used by officials of the American-led Coalition Provisional Authority, which stands well inside its vast and heavily fortified headquarters. America's deputy defence secretary, Paul Wolfowitz, who was staying at the hotel, narrowly escaped injury, but a lieutenant-colonel on a floor below was killed. And on the second day of Ramadan, at least four smaller explosions rattled different cities, including a suicide bomb in the hotspot town of Faluja that targeted another police station but instead went off outside a school, killing several children.

Mr Hashem, along with most other Iraqis, is convinced that the perpetrators of the Baghdad bombings were foreign. There is some evidence for this. The one surviving attacker was said to be either Syrian or Yemeni, carrying a Syrian passport. Similarly, police at the site of a previous bombing on October 19th, when a hotel used by coalition and Iraqi officials was hit, say they had heard the bomber speak with a foreign accent. Hundreds of *jihadi* volunteers are known to have entered Iraq before the war, and Iraq's long, sparsely guarded frontiers are likely to have proved little obstacle to intruders in the interim. The attackers' close co-ordination, scorn for civilian casualties and choice of suicide tactics all bore the stamp of Osama bin Laden's al-Qaeda group.

Yet a degree of involvement by members of the defunct security apparatus is also evident. The attackers appear to enjoy easy access to the cash, ordnance, bomb-making skill and intelligence needed for such deadly operations. The choice of targets, with police “collaborators” hardest hit, also hints at a convergence between Sunni religious extremism and the tactics of a disgruntled Baathist rearguard. Both share the same aim of sabotaging America's project in Iraq, whether in the name of Islam or of nationalism.

The large-scale bombings—there have been at least 20 since June, including ten suicide attacks—bear scant resemblance to the daily pothole blasts and shoot-and-run strikes endured by coalition troops in the so-called Sunni Triangle, the zone north and west of Baghdad where Saddam Hussein's supporters are thickest on the ground. But the instigators may be drawn partly from the same pool of recruits: ill-educated Sunni tribesmen, many of them army veterans bent on either personal revenge or on restoring their former privileged status as Saddam's thugs.

They share another thing, too: the disgust and loathing of ordinary Iraqis. “They call this religion?”, says Mr Hashem, puffing furiously on a cigarette in well-justified breach of the daytime fast. “They defile the very word Islam.”

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Iran's nuclear diplomacy

The political fallout

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From The Economist print edition

Iran's apparent climbdown may, oddly, point up the conservatives' strength

WHEN, earlier this year, Iran's reform-minded president, Muhammad Khatami, wanted to let UN inspectors snoop more freely around his country's suspected nuclear sites, he was slapped down by the conservative clerical establishment. So it looked odd, at first glance, that it was a pillar of reaction, Hassan Rohani, who last week committed Iran to accept inspections at short notice by the International Atomic Energy Agency, the UN's nuclear watchdog, to submit a list of present and past nuclear activities, and to suspend Iran's programme of uranium enrichment.

Only a few weeks ago, the agency's head, Mohamed ElBaradei, had complained that Iran was not doing enough. So what changed? For one thing, the Iranians feared America's new assertiveness. But another reason was that the conservatives saw a chance to discredit Mr Khatami and his supporters.

Ultimate power in Iran still lies with Ayatollah Ali Khamenei, Iran's “supreme leader”. Since the IAEA set a deadline of October 31st for Iran to submit to the agency's demands, the foreign ministry and its comparatively liberal diplomats have been kept remarkably “out of the loop”, as a western diplomat put it, on the nuclear issue. The reformists, who had been keen to co-operate with the agency, were further undermined by the clerics and by editors close to Mr Khamenei, who had hinted that Iran might end all co-operation with the IAEA.

Earlier this year, the supreme leader had authorised the national security council, a body of very senior Iranians, to chart the country's nuclear policy. But the supreme leader did not tap Mr Khatami, who heads this body, to guide the process but gave that job to Mr Rohani, his representative on the council, who recently seemed to operate on his own, with a unique degree of authority.

In the light of Mr Rohani's prestige, worried foreigners dropped their former principled insistence on dealing with the elected (and reformist) parts of Iran's elite, in favour of unelected conservatives, typified by Mr Rohani. It was his order, in the teeth of opposition from the generals, that secured for Mr ElBaradei's inspectors unprecedented access to several military sites, a feat no reformist could have achieved. Mr Khatami looks less in charge than at any time since his triumphant election six years ago.

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Palestine

Hamas rising from the ashes

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Why the Islamist extremists of Hamas are gaining Palestinian popularity

IT LOOKS like the photograph of a bombed-out city in the second world war. A 200-yard-wide swathe of gouged mud, crushed stone and blasted skeletons of houses now defines the Gaza Strip's southern border with Egypt. It was once Block L of the Yebna refugee camp in the town of Rafah. Last month the Israeli army destroyed 150 homes there to unearth arms-smuggling tunnels. Palestinians say it was the final act to “cleanse” them from an area that has long been one of the hottest front lines in their long war with Israel.

It stirs the most ominous of memories. “In 1948 the Israelis transferred us to the West Bank and Gaza. Now they're transferring us to places *within* the West Bank and Gaza,” shrugs a Palestinian mother of seven whose house is now a pile of pulverised concrete covered by a carpet.

She is one of nearly 2,000 Palestinians displaced by this and two other recent Israeli incursions into Rafah. For relief the homeless turn mainly to two organisations. One is the United Nations Relief and Works Agency (UNRWA), which is responsible for Palestinian refugees. The other is the al-Salah Islamic Society, whose funds were frozen by the Palestinian Authority (PA) in August for its alleged links with the Islamist Hamas movement.

UNRWA is desperately seeking rented accommodation for the displaced in a town that already has 5,000 homeless due to earlier Israeli incursions, and where secure land on which to house them is dwindling. Al-Salah volunteers are busy doling out cash, blankets and food. The PA, by contrast, is palpable by its absence. When its housing minister, Abdel Rahman Hamad, visited Rafah last week, he was confronted by locals outraged by the PA's inability to provide the barest of services.

Al-Salah admits that the freeze on funds has hindered its work. Employees go without salaries and recipients cannot cash cheques. But the charity struggles on. Its headquarters in Rafah is crammed with blankets, plastic kitchen utensils and school uniforms, all awaiting distribution.

How does al-Salah pay for all this stuff? “The banks give us credit. They know we can account for every penny we spend,” says Nafiz Mansour, its director. He assumes the PA will eventually unfreeze the funds under popular pressure. He is probably right, for al-Salah's aid and activism are deeply appreciated by people who have rarely felt so abandoned.

There are other reasons, aside from welfare, for the Islamists' rising popularity in Gaza. On October 24th two fighters from Hamas and Islamic Jihad, the Palestinians' two biggest Islamist movements, infiltrated the Jewish settlement of Netzarim, in the Gaza Strip, killing three soldiers, two of them women. The settlement is home to 60 families and is a base for an army battalion. Its location south of Gaza City enables Israel to slice the strip in two, severing Palestinians in places like Rafah from their main hospitals, universities and businesses in Gaza City. In reprisal for the attack on Netzarim, the Israeli army demolished three unfinished 13-storey residential towers from which it said Palestinians had been firing on the settlement. The PA said that, once built, the apartments would have housed 5,000 Palestinians.

In September, Israel tried killing Hamas's leader, Sheikh Ahmad Yassin, aware of the movement's growing power in Gaza. He shrugs off talk that the attack on Netzarim augurs a new Islamist alliance ready to fill the PA's leadership vacuum. “We're not interested in ending the PA,” he says. “We're interested in ending the [Israeli] occupation.” To this end, he justifies suicide bombings inside Israel as necessary responses to “Israel's crimes against our civilians” in the West Bank and Gaza.

Even so, he says he is ready to discuss another Palestinian ceasefire with Ahmed Qurei, the PA's new prime minister. “We're waiting to hear proposals from Abu Alaa [Mr Qurei's *nom de guerre*],” says the sheikh. “We observed a truce in summer and took some steps on the ground. But Israel refused to reciprocate. If it is in the Palestinian interest to have a ceasefire, we will have one. If not, we won't.”

In practice, say other Hamas men, they won't sign another ceasefire unless Israel ends its policy of assassinating Islamist leaders, stops its incursions into the PA's areas, stops demolishing Palestinian homes and stops building new barriers cum borders. In these respects, Hamas is in tune with most Palestinians.

Mr Qurei seems to agree too. He has ruled out what he calls another “unilateral” Palestinian ceasefire, like the one that was brutally broken when Hamas bombed a bus in Jerusalem in August, making it impossible for Mahmoud Abbas, Mr Qurei's predecessor as the PA's prime minister, to go on. Nor will Mr Qurei take action against either the military or political wings of Hamas—unless, as he puts it, Israel's ends “the military assaults against our people”.

Officially, Israel's government says it has no faith in a new ceasefire unless the PA first starts to dismantle Hamas or at least to curb its militias. But beneath the surface, Israel may be pondering anew. Its army chief of staff, Lieutenant-general Moshe Yaalon, said this week that he questions the rigidity of Shaul Mofaz, the defence minister, and suggested that Israel's tough attitude helped bring down Mr Abbas, Mr Qurei's predecessor. The new man, the general implies, should be given more of a chance.

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South Africa

Roll on the roll-out

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Let the war against AIDS really begin

AS HE buried his younger brother last weekend, a Johannesburg radio presenter, Lawrence Dube, called for a “war against AIDS”. “People are dropping like flies,” he said. “This is the biggest challenge since creation.” Other mourners talked of their own experiences of the disease—about condoms, safe sex, early death and politicians' refusal to face the problem. “The reality hits ordinary people when they attend a funeral every weekend,” Mr Dube sighed. “But President [Thabo] Mbeki still denies he knows anyone who has died of AIDS.”

But the government is poised, finally, to launch the war Mr Dube wants. Joel Netshitenzhe, who advises Mr Mbeki, says the cabinet will publish a programme “within weeks”, setting out how anti-retroviral drugs will be distributed to clinics and hospitals across the country. “This has moved from being a decision about policy to one about implementation.”

In April last year and again this August the government agreed that all patients in need would get free drugs. But without detailed plans on how and when this much-heralded “roll-out” of drugs will happen, little progress was made. Some 5m South Africans, 11% of the population, are HIV-infected. Hundreds die every day. Earlier this year a leaked official report said that just $2.6 billion spent over seven years would prolong the lives of more than 1.7m.

Extra money is now being made available by the treasury and donors. Just as important, the predicted cost may drop. Last week producers of generic versions of anti-AIDS drugs said prices would fall to barely $12 a month per patient, sharply below current prices and within the purse of many who could buy pills from private suppliers. The bulk of government costs will now be for training nurses, administration, data collection and to run HIV clinics in each of the 53 districts and six metropolitan areas.

But drugs alone will not beat the blight. It will take months, at least, to expand distribution from the current 18 experimental sites into a national network. Even then, people must be persuaded to use them. “We need to see cabinet ministers on TV talking about safe sex, telling people to get tested and treated,” says Nathan Greffen of the Treatment Action Campaign.

That is unlikely. Mr Mbeki still barely mentions AIDS, objecting that Africans are already seen as disease-ridden and that candid talk encourages prejudice against them. His health minister, Manto Tshabalala-Msimang, has been equally feeble in tackling the issue, calling anti-AIDS drugs “poisons”, though they have been proven to prolong lives by at least a decade; patients, she says, should eat garlic instead.

Mr Dube complains that “the normal man in the street won't divulge his AIDS status” largely because Mr Mbeki and his fellows still refuse to discuss AIDS openly; they won't admit, for instance, an open secret that colleagues have died of it or that many themselves use drugs to fight it. A former health minister of Mpumulanga province long tried to block the use of anti-AIDS drugs in any clinics, even for rape victims. Some suspect that the Medicines Control Council is tardy at registering, licensing or approving trials of new anti-AIDS drugs because of political influence.

Partly as a result of such blindness on high, state institutions are being undermined. More than 40% of soldiers in some army units are HIV-infected, according to researchers, though the defence minister, Mosiuoa Lekota, denies that figure. Young people away from home—teachers, policemen and nurses—suffer especially high rates but are not encouraged to be tested. So the very people who should be the foot soldiers in the war are themselves the most vulnerable to the disease.

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Russia's oligarch wars

The Trial of K

Oct 30th 2003 | MOSCOW
From The Economist print edition

Once again, Russia's business and political forces have clashed mightily. Which side will win?

Get article background

IN THE fog swirling round Russian politics this week, one thing at least looks clearer. The prosecutors' campaign against Yukos, Russia's biggest oil company, which began on July 2nd with the arrest of a big shareholder and culminated on October 25th with the arrest of its boss, Mikhail Khodorkovsky, has President Vladimir Putin's approval. Only he, most think, could have given the go-ahead to throw the country's richest man in jail. Mr Putin feigned detachment from the legal probes, as he did three years ago when two other oligarchs, Vladimir Gusinsky and Boris Berezovsky, were stripped of their assets and chased into exile; but nobody doubts that their fate, like Mr Khodorkovsky's, was Mr Putin's punishment for political meddling.

Apart from this, though, Moscow is as awash with conspiracy theories about Yukos as ever. The theories were fed by mid-week rumours of the resignation of the Kremlin's chief of staff, Alexander Voloshin, the linchpin of a pro-business faction in the government (though his departure has been wrongly rumoured before).

Mr Khodorkovsky, like other oligarchs, became rich from buying up state assets at knock-down prices in the early 1990s. Some won senior jobs under President Boris Yeltsin. At a meeting in early 2000, Mr Putin reputedly told the oligarchs to stay out of politics, or risk losing their assets. Messrs Gusinsky and Berezovsky used their television stations to attack the president. They lost them, and their Russian residency, soon afterwards. But others, who bent in the wind, survived (see table).

Mr Khodorkovsky at first seemed to play by the rules. He devoted himself to becoming the face of modern, cleaned-up Russian business, leading the way in corporate governance, transparency and taxpaying. By this year he could boast that his companies were financing 7% of the federal budget. A merger now being completed with Sibneft will make Yukos the world's fourth-biggest oil company.

But with his wealth grew his influence—and his use of that influence to sustain his wealth. Yukos's lobbying in parliament against changes to the oil industry's tax regime earlier this year, blocking some of them, was “absolutely the trigger” for the prosecutors' investigations, says Christopher Granville of United Financial Group, a Moscow-based investment bank. Mr Khodorkovsky criticised the government's ban on privately owned oil pipelines. He stepped on other toes by alleging corruption in state firms at a public meeting with Mr Putin, provoking a sharp presidential rebuke. He even hinted at political ambitions by saying he would step down from Yukos in 2007.

Even so, nobody is quite sure why the campaign against him began in July. Was it at Mr Putin's behest, or did he just give the nod to henchmen with scores to settle? Is it aimed only at Mr Khodorkovsky, or is it part of a Kremlin power struggle? Is the goal to make Mr Khodorkovsky shut up or to confiscate part or all of his empire? Is it an attempt to scare off foreign oil companies from buying a big stake in Yukos—Exxon Mobil and Chevron Texaco are both interested—or merely to get Mr Khodorkovsky out before letting them in?

The oligarch targets

Name	Owned then	Owns now	Official misdeed (and year charged)	Real misdeed	Backed down?	Fate
Mikhail Khodorkovsky	Yukos	Yukos – for now	Fraud, tax evasion (2003)	Getting too powerful	No	To be decided...
Roman Abramovich	Sibneft, half of Russian Aluminium	Cash, Chelsea Football Club	Dodgy tax schemes (2001)	Meddling in Gazprom, being too greedy	Yes (sold out this year)	Governor of Chukotka, retirement?
Vagit Alekperov	Lukoil	Lukoil	Tax fraud (2000)	Probably a private feud	Yes	Still in business
Vladimir Potanin	Interros	Interros	Defrauding the state (2000)	Not clear	Yes (paid up, swore fealty)	Still in business
Boris Berezovsky	ORT, RTR (television)	Cash, nice houses	Embezzlement, money laundering (2000)	Attacking Putin	No	Exile
Vladimir Gusinsky	Media-Most, NTV	Cash, nice houses	Embezzlement, money laundering (2000)	Attacking Putin	No	Exile

The answer is probably a mixture of all of these. Some think that Mr Putin may have authorised the investigations into Yukos without realising how brutally they would be carried out: night-time arrests, blatant shows of force, armed raids on Yukos's charity projects. Or he may just have thought that Mr Khodorkovsky would back down.

Instead, the oil magnate kicked up an international fuss about his persecution, bought a newspaper and got no fewer than 101 members of the Duma to sign a petition complaining about the alleged torture of one of the Yukos suspects. Mr Khodorkovsky's gall was remarkable; his fall may have been inevitable. He faces up to ten years in jail on charges ranging from tax evasion to theft of state property.

The stockmarket plunged after the arrest, though it later rallied. Even the talks over a foreign purchase of Yukos were reportedly put only on temporary hold. But Yukos shares slumped again when prosecutors said they had seized a 61% stake.

Foreigners who do business in Russia already know that their protection comes not from the law but from their *krysha*, or “roof”—ie, a well-connected power-broker. Arbitrary use of the law is not news; few expect it to go wider this time. Mr Putin himself insisted that “there will be no generalisations, analogies and precedents regarding the results of privatisation...Therefore, I would ask for all speculation and hysterics to stop.”

After earlier anti-oligarch campaigns, business did indeed return to normal. Once this clash with Mr Khodorkovsky is resolved, will the same happen again? Maybe not. The purges early in Mr Putin's term marked a separation of business and political power. But since then he has displayed ever-increasing authoritarianism, with tighter control over elections, the media and all branches of government. A confrontation between two separate, but now more powerful, business and political elites was almost inevitable.

The question is how it will play out. Some see Mr Khodorkovsky's arrest as a win for the *siloviki*, Mr Putin's former colleagues from the security services. Mr Voloshin's departure would lend further credence to this theory. If the rumour proves correct, this will mean a slowdown of such reforms as bureaucratic streamlining or the privatisation of Gazprom, the state gas monopoly. Some seem to have decided already that Russia is no longer a safe place to keep their money: capital flight was up sharply in the third quarter (see chart).

However, Mr Khodorkovsky is not broken yet. And the harshness of his persecution seems to have shocked other business leaders, who were even more upset when Mr Putin refused to discuss it with them. Support for the oligarch has come from unlikely quarters. Vladimir Ryzhkov, head of one of the pro-Kremlin parliamentary factions, called the affair “a sign that the state is not willing to see business as a partner, but only as a subordinate.” Anatoly Chubais, chairman of the state electricity company, called on Mr Putin for clarification: “I want business to understand the authorities' position on business.”

All of which suggests that, far from being cowed, the business side may be ready to fight back. A big battle is the last thing Mr Putin wants. He has based his presidency on creating stability, not upsetting it. The measure of his grip on power now will be his ability to maintain a truce.

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Bulgaria, Romania and the EU

In the waiting room

Oct 30th 2003 | BUCHAREST
From The Economist print edition

Problems for two applicants hoping to join the European Union

A BALKAN fairy tale unfolded in 2001 when an exiled child-king of Bulgaria, Simeon Saxe-Coburg-Gotha, returned home in middle age and promised to solve all his country's problems in 800 days, if only his countrymen would elect him prime minister. They did so, handsomely. And, inevitably, disillusion has followed.

The king has not yet turned into a frog, but his political party almost croaked at local elections across the country on October 26th. The “National Movement Simeon-II” finished third behind the Socialist Party and the right-wing United Democratic Forces (UDF). It won a mere 11% of the vote, against 43% in the general election of 2001. At least half the electorate chose not to vote at all. The main local contest, for mayor of Sofia, will be decided in a run-off on November 2nd between the incumbent, Stefan Sofiyanski, a centre-rightist, and Stoyan Alexandrov, a Socialist.

If there is any comfort here for Simeon, it is that Bulgaria's voters are so hard to please. To make way for the ex-king in 2001, they threw out a UDF government that had just rescued the country from financial collapse. Simeon inherited an improving economy that he has managed quite well, mainly thanks to his clever young finance minister, Milen Velchev. The country is still poor, but its economy is growing by a steady annual 5% or so. In July the IMF called Bulgaria's performance “excellent”, though it worried that the government's falling popularity was sapping its will to continue reforms.

It is to Simeon's credit, too, that he was there in 2001 to take power, and went on to hold it in a relatively innocuous manner. He gave voters who had lost patience with the UDF's austerity programme a means to reject that government without reinstating the Socialists who had been responsible for ruining the economy in the first place.

His government has also brought Bulgaria closer to joining the European Union in 2007, an ambition it shares with neighbouring Romania. Last year the European Commission declared Bulgaria to be a “functioning market economy”, a precondition for entry. It has yet to give Romania the same status, and may not do so when it publishes its annual progress reports on the candidate countries next week.

Romania and Bulgaria are anxious to receive good opinions, as a signal that they are on course to complete their entry negotiations next year, and to join the EU in 2007. Although Bulgaria has been dragging its feet over some reforms, the commission is likely to reserve its most serious criticisms for Romania. Last year's progress report found shortcomings in the judicial system and the public administration that Romania has done little to correct. The recent resignation of three ministers has probably done more to highlight than to eradicate the corruption and nepotism that are almost universal in the country's public sector.

But any pleasure Bulgaria takes in doing better than its neighbour will be offset by worry that slower progress in Romania could hold both countries back. EU governments, struggling to accommodate ten new countries next year, may grasp at any reason to postpone the next round of enlargement, perhaps until 2010. Arguing for the EU to admit Bulgaria sooner may be ex-king Simeon's last service to his voters.

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France's unloved Socialists

Makeover wanted

Oct 30th 2003 | PARIS
From The Economist print edition

Looking to Laurent Fabius for salvation

Get article background

OUT with the haughty air, the technocratic earnestness, the cold ambition. In with jeans and T-shirts, motorbike rides and hot-dogs. Nearly 20 years since he became France's youngest-ever prime minister, at the tender age of 38, Laurent Fabius is on a mission to reinvent himself. But will his rebranding be enough to revive his own and his party's fortunes?

Only 18 months ago, the Socialist Party was humiliatingly evicted in the first round of the presidential election by the far-right Jean-Marie Le Pen. The party has yet to pick itself off the floor. Each time the centre-right government of Jean-Pierre Raffarin stumbles, the Socialists are nowhere to be heard. The most vocal recent opposition has come from a rival centre-right party, led by François Bayrou. In October the Socialists' approval rating sank to 38%, according to SOFRES, a pollster—its most miserable score in nine years.

The party's dilemma is familiar: how to appeal simultaneously to centrist voters suspicious of the reckless left and to the other parties of the left without which the Socialists cannot hope to form a majority. But it has been sharpened by the electoral collapse of 2002. The party's traditional friends—the Greens and the Communists—crumbled. Above all, working-class voters deserted the Socialists. Among those who voted in the first round, only around 13% backed the Socialist candidate, Lionel Jospin. Many (23%) opted for the far right. Others were drawn to hard-left Trotskyite parties, or, worse, to extra-parliamentary anti-globalisation movements, which make even less likely bedfellows for the Socialists than the Communists did.

AFP

Dress-down Fabius

The party is divided over what to do next. Many Socialists think that they lost because they were too centrist in government, and so the party should now move further to the left. Others, including Mr Fabius, strongly resist a drift towards what he calls *gaucho-populisme* (leftie populism). For now, the party is evading the choice. It has plumped for a moderate leader, François Hollande. Yet its heart continues to beat elsewhere: its warmest standing ovation at its party congress earlier this year was for Bernard Thibault, leader of the CGT, a union with Communist roots.

If the party cannot decide where to position itself, can it at least unite around a single leader? With difficulty. Its two most popular figures are flawed: too semi-detached (Bernard Kouchner, 53% approval rating), or not heavyweight enough (Jack Lang, 46%). Bertrand Delanoë (42%) is a hugely popular mayor of Paris, but the party may not be brave enough to field a candidate who is openly gay. Others are less well-liked. Mr Hollande is uninspiring. Martine Aubry is tainted by the 35-hour-week, which she devised. Dominique Strauss-Kahn, a former finance minister, is considered too centrist.

Enter the rebranded Mr Fabius. The number two in the party, and a former finance minister as well as prime minister, he has the credibility to appeal to the centre. The trouble is the party's left. He may be to the left of Britain's Tony Blair, but that is still too right-wing for many traditional Socialists. So his best chance of propelling himself to the top is by demonstrating that he is the leader most likely to get the

party re-elected. And for that, this high-flying graduate of the Ecole Nationale d'Administration, the French elite training academy, needs more popular appeal.

Hence the *relooké* (madeover) Mr Fabius. He already has the grey hairs to look presidential. Now, we learn, he is a sentimental creature: he has confessed on television that he cries. He is in touch with provincial France: he has a book coming out soon that promises to be a personal political journey. “I see the image people have of me, they say: ‘You are clever, ambitious, a bit cold, Parisian,’” he says, dressed in his new uniform—this time, black cords and black polo jumper. “Then when people meet me they say ‘You're taller than I expected, and you're actually quite nice.’ So I need to work on it.”

Mr Fabius needs not only to seduce his party, but to find other friends on the left. As he points out, on its own the party lacks the critical size of its counterparts in Germany and Britain. That is why it has relied on the now-wilting Greens and Communists. But a change in French politics is working against it. In the past, one or other extremist party has thrived: the Communists until the early 1980s, the National Front from then onwards. Today, however, extremist politics are flourishing at the same time on both far right and far left, sapping both mainstream political parties. Finding a way to reach out to disaffected voters fed up with the unkept promises and phoney rhetoric of the political class altogether may turn out to be far harder than one man's makeover.

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Berlin's Holocaust memorial

Spray-on problems

Oct 30th 2003 | BERLIN
From The Economist print edition

A tricky row about a memorial

AFP

Monumental row

THE “Memorial to the Murdered Jews of Europe”, now under construction near the Brandenburg Gate in Berlin, has long been controversial, not least for its monumental design by an American architect. Now it is in the headlines once more. And the latest row raises again the question of how far companies should be held responsible for their shameful histories during the Nazi era.

The problem does not lie with the memorial itself. It is the anti-graffiti coating meant to be put on the 2,751 huge concrete slabs that it consists of. This coating was meant to stop the slabs being covered by swastikas or otherwise defaced by neo-nazis. The product was to have been provided by Degussa, a big German chemical company.

Now it turns out that Degussa once owned Degesch, the firm that produced the Zyklon B used to gas Jews in concentration camps. At first, nobody noticed—or nobody wanted to notice. But then the press discovered the link, reportedly after being tipped off by a Swiss company that had hoped to win the contract until Degussa decided to donate half the material needed.

After the story broke, the memorial's board of trustees, after an apparently heated discussion, concluded that using the firm's product, called Protectosil, would be “unacceptable given the specific nature of the Memorial project”. It advised the construction company to stop using the coating until another product could be found.

Degussa has not, in fact, been one of the companies that shies away from its past. It is an active member in the foundation created by German companies to compensate victims of forced labour. And it has commissioned researchers to look into its history, without having any say over what they publish.

This behaviour is by no means exceptional these days. Since the mid-1990s, says Manfred Pohl, a historian and head of corporate cultural affairs at Deutsche Bank, most large German companies have reappraised their history. It is now time, he argues, to forgive them (not the same as forgetting). By excluding Degussa from the Holocaust memorial, an opportunity has been missed to do just that. One could also claim that it is unfair to penalise today's shareholders or employees of Degussa for the actions of the company in the past.

All this may make eminent sense. Yet Degussa is still the wrong firm to provide the anti-graffiti coating for Berlin's Holocaust monument, if only for emotional reasons. If Holocaust survivors or their descendants could not bear to visit the site because the very material it was composed of brought to mind Zyklon B, finding a more neutral product was the right way to go.

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Spain's political prospects

The battle of Madrid

Oct 30th 2003 | MADRID
From The Economist print edition

Foreshadowing the next election

“WHOEVER wins Madrid, will win the general election in March.” So said José Luis Zapatero, leader of Spain's opposition Socialists some months ago. Now that the centre-right People's Party has regained control of Madrid, Mr Zapatero has modified his position: he had expected a far worse result, and his party is in better shape than ever for the spring elections. Yet it is his original forecast that may prove the more accurate.

The lessons to be learned from Madrid are far from clear. The poll was a rerun, because the Socialists and the United Left had failed to form a government after winning the elections in May. Two Socialists refused to support the coalition and fled, amid allegations that they were paid off by Madrid's booming construction industry. In the months before the rerun Mr Zapatero did not do enough to convince Socialist voters that he had taken his party firmly in hand. In particular, he fumbled the chance to punish José Maria Aznar, the prime minister, for his hugely unpopular support of the war in Iraq and for his mishandling of the *Prestige* oil spill.

Even so the Madrid result does not necessarily guarantee a victory for Mr Aznar's recently anointed successor, Mariano Rajoy, in five months' time. The win was not as good for the People's Party as had been forecast by recent opinion polls. The party won 51 seats, thereby clinching Spain's most populous region by just a three-seat majority.

The new regional president, Esperanza Aguirre, 51, described as “unremarkable” by a former Aznar aide, does little to lift the spirits. She is Spain's second female regional leader, who has been handed a reprieve after rather ordinary stints as education minister and president of the senate. She has been harried in the press for being frivolous, marrying a count and being furtive about her wealth. “I do not intend to exhibit assets nor do a striptease,” was the tart response she gave to her critics. She is nevertheless one of the People's Party's few liberal ideologues, once spoken of as a Spanish Margaret Thatcher.

The most positive result for the centre-right in Madrid is that a wedge has been driven between the supposed sins of Mr Aznar and those of his successor. “Given that the elections lie halfway between the May ballot and the general elections next year, the Madrid defeat is a worrying one for the Socialists,” the conservative daily newspaper *ABC* opined in an editorial. “If the war in Iraq and the *Prestige* disaster didn't produce a change in May, the elections in Madrid proved they were no longer valid arguments.” For the left, Mr Zapatero's leadership has withstood an uncomfortable test that he had to pass to run in March—but there was precious little other consolation.

Recent opinion polls show the People's Party with a good chance of either winning a slim outright majority in March or of being forced, once again, into an alliance with a regional party such as the Catalan nationalists. It is in Spain's regions, rather than the capital, where the tone for the elections is being set. The regional Basque leader, Juan José Ibarretxe, formally announced his plan for “a Basque state associated with Spain” last week. The People's Party fears that the normally quieter nationalists of Catalonia may be emboldened by the Basque initiative. With Catalan elections due on November 16th the tone is becoming shrill.

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Italy's gaffe-prone prime minister

Arresting

Oct 30th 2003 | ROME
From The Economist print edition

Delays over Europe's arrest warrant

MARTIN SCHULZ, a German socialist Euro-MP, has a talent for luring Italy's prime minister, Silvio Berlusconi, into saying things he shouldn't. In July, he needled him into likening Mr Schulz to a concentration-camp guard. When Mr Berlusconi recently returned to Strasbourg, Mr Schulz asked what the Italian government was doing to ratify plans for a common European arrest warrant. Mr Berlusconi's response in the chamber was vague. But at a press conference afterwards, he announced that “next week the Italian parliament will discuss, and vote on, the bill [to approve a] European arrest warrant and prosecutor's office.”

Just one problem: Mr Berlusconi's announcement was nonsense. No debate is scheduled, and none has taken place. The only bill on the matter has been proposed by the opposition, not the government. The chairman of the justice commission of the lower house, Gaetano Pecorella, a member of Mr Berlusconi's party, has referred the bill to the constitutional-affairs commission, on the grounds that the idea runs counter to Italy's highest law.

Italy is pledged by none other than Mr Berlusconi himself to ratify the European arrest warrant by the end of the year. Yet even before the opposition bill was diverted, there was scant chance of meeting that deadline. Inevitably, there are suspicions that Mr Berlusconi's followers are obstructing ratification because of the problems it could cause the prime minister, whose legal travails are by no means confined to Italy. He has, for instance, been under investigation in Spain for alleged fraud over the acquisition of a stake in the television channel Telecinco.

Many of Mr Berlusconi's allies dislike a proposal that, in the words of Italy's justice minister, Roberto Castelli, would mean “the cession of a significant tranche of national sovereignty”. Indeed, the coalition government is showing a streak of Euroscepticism over the issue. Mr Castelli belongs to the Northern League, whose leader, Umberto Bossi, had this to say: “By abolishing the limits of territorial jurisdiction and the checks [imposed by] extradition, you replace the criminal-law codes of the individual states and invent a single community legal code that will do away with the residual autonomy of the states. It is a Nazi folly.”

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Charlemagne

Les Eurosceptiques

Oct 30th 2003
From The Economist print edition

Continental Euroscepticism meets conventional Euro-enthusiasm

FOR Eurosceptics this is both the best of times and the worst of times. The planned constitution for the European Union is stoking their fears of a nascent European superstate. But the prospect that many of the 25 countries involved in the negotiations will hold referendums on the constitution also presents those opposed to the Brussels mantra of “ever closer union” with a rare opportunity to halt the federalist steamroller.

Referendums are ideal for the agitators known as Eurosceptics in Britain, Eurorealists in Scandinavia and Souverainistes in France. In elections, Europe is rarely a salient enough issue to sway voters. But in a referendum in which voters are asked directly about a European issue the sceptics have a chance of mobilising the “silent majority” that they believe shares their views. Referendums also allow the sceptics to paper over ideological divisions. Jesper Katz, a Swedish economist who campaigned successfully for a No vote in the recent referendum on Sweden's entry into the euro, argued his case from a free-market perspective. He was unperturbed by the fact that many of his allies were left-wingers who saw the euro as part of a capitalist plot. The campaign philosophy, he says, was: “You work your side of the street and I'll work my side, and we'll go back to fighting each other when this is over.”

Euroscepticism certainly yokes together disparate groups. There are French hunters whose main objection is that the EU stops them blasting all living things out of the sky. There are Scandinavian greens who are convinced that the EU is turning Europe into an industrial wasteland. There are Irish nationalists and British Tories; there are Trotskyites and far-rightists. But there are also some common elements. Eurosceptic voters across the continent are more likely to be women, more likely to be working-class and more likely to be under 30 or over 60.

Even those arguing from different sides of the left-right divide make similar arguments about democracy. Jens-Peter Bonde, a left-wing Danish Euro-MP who is de facto leader of the sceptics in the European Parliament, says, “I have no objection to the idea of a European federation in principle. I just don't think it can work because it will never command the loyalties of ordinary people.” Right-wing Euro-MPs such as Georges Berthu from France and Daniel Hannan from Britain make similar points. Mr Berthu accuses European federalists of wanting to create “a new man, European man, and to ignore the reality of how ordinary people think.” Mr Hannan argues that “democracy works best when people feel they have enough in common to accept being governed by each other.”

The sceptics' fervent hope is that EU expansion to take in the countries of central and eastern Europe will bring reinforcements. The Law and Justice party, running second in the polls in Poland, has close links with the British Tories. Vaclav Klaus, president of the Czech Republic, struck an unusual tone for a European leader when he implicitly compared the European Union to the Soviet Union, saying that Czechs are suspicious of the EU because they know only too well “what it means to lose sovereignty, to wait for directives coming from a remote city.”

Euro-enthusiasts in Brussels argue that Eurosceptics are playing with fire by appealing brazenly to nationalism. Sceptics are lambasted for being “xenophobic”, “ignorant” and “peddling myths”. It is true that many British newspapers love to publish EU scare stories, without fussing much about their accuracy. Also, some pretty unsavoury characters have embraced Euroscepticism, such as Jean-Marie Le Pen, leader of France's National Front. But though there are plenty of sceptics whose views are based on chauvinism and ignorance, many others exhibit a detailed, indeed obsessive, interest in obscure (and apparently sinister) bits of EU legislation. Bill Cash, a British Tory MP and veteran anti-EU agitator, is one. His Europhile opponents use the most crushing of British put-downs to describe him: Bill, they say, is “a bit of a bore” about Europe. Perhaps at the House of Commons, where there are so many bars to

visit and so many plots to hatch, sceptics do seem boring. But in Brussels, a city grown fat and stale on consensus, the sceptics inject some much-needed fresh oxygen into the air.

Primacy inter pares

Take the current argument about Article 10 of the proposed constitution: “The Constitution, and law adopted by the Union's institutions...shall have primacy over the law of the Member States.” The consensus Europhile opinion in Brussels is that anybody who is upset about this article is plain ignorant. It is a statement of fact that changes nothing about Europe. European law has had primacy over national law ever since the early 1960s; indeed the EU could not operate if national governments could ignore any laws that they found objectionable.

But Mr Berthu, the French sceptic, challenges this view. The primacy of EU law was only ever established by the jurisprudence of the European Court of Justice, he says: it has never before been stated explicitly in a treaty. Indeed, in its ruling on the Maastricht Treaty in 1993, the German Constitutional Court said that there might be circumstances in which EU law could not override Germany's. Some other constitutional courts, including Denmark's, appear to have similar views.

What is more, argues Mr Berthu, European governments accepted the primacy of EU law when the then European Economic Community dealt with a far narrower range of issues than it does today. It is one thing, he says, to go along with a principle established by the courts and applied to a restricted range of subjects such as customs duties; it is quite another to concede national sovereignty in an EU constitution whose writ covers everything from fiscal policy to immigration. Mr Berthu may be right or he may be wrong. But Europe's constitutional debate would be poorer without him and his fellow sceptics.

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Politics

Over to Howard

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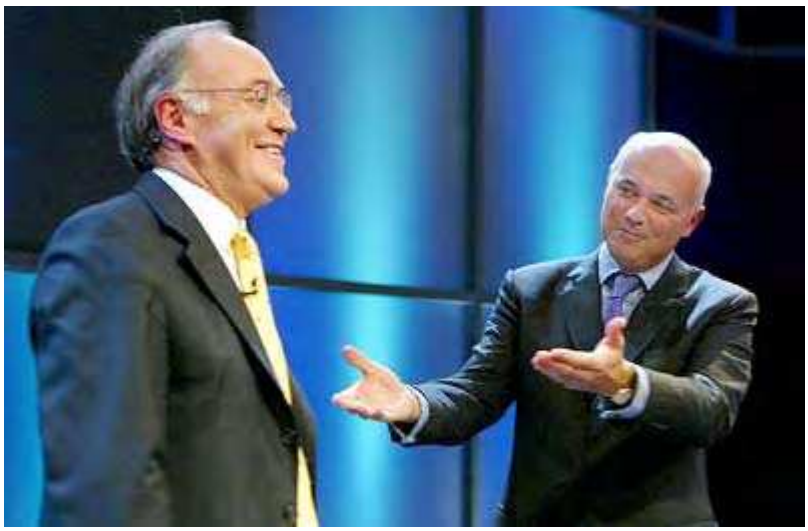
Reuters



The Tories are looking to a better future with a politician from a troubled past

Get article background

AFTER months of plotting and backstabbing, the Conservative Party's survival instinct reasserted itself this week. Hours after of plunging the knife into its leader, Iain Duncan Smith, Tory MPs from all quarters of the party were giving their backing to Michael Howard, a veteran right-winger who had served in both the Thatcher and Major governments.

His virtual coronation spares the party the trouble, cost and potential damage a full contest for the leadership would cause and gives it at least a chance of living up to its title as Britain's official opposition.

It ended a day of high drama at Westminster in which Conservative MPs voted to get rid of their leader by 90 votes to 75. Shortly afterwards, Mr Howard's leading rivals lined up to pledge their support. Nominations do not formally close until next week, but on Thursday Mr Howard looked all set to be elected unopposed. All the party's big hitters, including David Davis, Kenneth Clarke and Michael Portillo, decided that there was nothing to be gained by bidding for a leadership that they were unlikely to win.

Mr Howard, who if elected will be the first Jewish leader of the party since Benjamin Disraeli in 1880, is a skilled parliamentary performer. He is brainy, tough and articulate. As a member of Mr Duncan Smith's team, he was energetic and loyal. But his appeal to voters is less certain. An ICM poll published by the *Guardian* earlier this month found that almost half of those asked said that having Mr Howard as leader would make no difference to their voting behaviour; 19% said they would be more likely to vote Conservative but 26% said they would be less likely.

If he can overcome this public scepticism, Mr Howard is in a much stronger position than Mr Duncan Smith, thanks to a solid base within the parliamentary party. Tory constituency parties may be cross at first. They have, in effect, lost their chance to take part in choosing a leader. But with an election perhaps only 18 months away, they may not mind that much.

There will, though, be bitterness at the way that Mr Duncan Smith was so ruthlessly junked by his party. A former junior army officer, he fought to the last, with increasingly impressive grit and coolness. But

most of his parliamentary colleagues had long since despaired of his uninspiring performances in the House of Commons and chaotic management of the party outside it. As barely a third of them had voted for him to be leader two years ago, it was not surprising that he lost the vote of confidence. Shortly before, he told his colleagues that “only a lunatic would want to lead the Conservative Party”.

Under the party's bizarre constitution, bequeathed by the previous leader, William Hague, Mr Duncan Smith's fate was sealed by only 25 Tory MPs (15% of the parliamentary party). Once their letters had been received in confidence by the chairman of the party's executive, Sir Michael Spicer, this week, a vote was unavoidable.

A final embarrassment was an inquiry by the parliamentary standards commissioner into whether Mr Duncan Smith's wife, Betsy, had been improperly paid £15,000 from public funds for secretarial work. But it was not that which had made up the minds of most MPs. Almost anybody else, they concluded, would give them a chance, if not of winning the next election, then at least of improving their position for the time after that. It was this that Mr Duncan Smith was patently unable to deliver. Even his party managers despaired, openly, of his leadership. At the end, he was unable to command loyalty, partly because he himself had been disloyal when the Tories were in power, and he had helped destroy the government of John Major by voting against it over Europe, night after night.

The prime minister, Tony Blair, joked a few weeks ago that he longed for an effective opposition. With a more disciplined approach to policymaking and spending commitments, combined with Mr Howard's other qualities, Mr Blair should not be disappointed. Much also will turn on whether Mr Howard is able to capitalise on his remarkable coup by enlisting all the talents in his party. The talented Mr Hague has ruled himself out. It is also unlikely that Mr Clarke and Mr Portillo, respectively representing the European and socially liberal wings of the party, can be persuaded to return to the colours. In their absence, for all the talk of unity, Tory rifts may continue. At the very least, Mr Howard must ensure the shadow cabinet is more big tent than narrow sect.

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Butlers

What he saw

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From The Economist print edition

Dark forces threaten Britain's butlers

Get article background

A GOOD butler needs many qualities. But above even the ability to starch a napkin, or to cut a diaphanous cucumber sandwich, are “loyalty, respect and discretion”, according to Robert Wennekes, chairman of the profession's international guild. Now Britain's reputation for producing the best butlers is shrivelling thanks to the antics of its currently most famous practitioner, Paul Burrell.

Once butler to Diana, Princess of Wales, Mr Burrell has made a packet selling a tabloid newspaper an account of her private life, complete with salacious titbits, some of doubtful veracity. He elaborated them in a book published this week.

The main lesson to be drawn is that the wound in the public psyche left by the princess's death six years ago has clearly not healed. No one else has come close to filling the gap left in the royal family and in the country's celebrity pantheon. What critics call “Dianafication”, the elevation of treacly sentiment and womanly misunderstoodness, is still a potent brew.

That creates a lot of interest in Mr Burrell's tawdry tales, far outweighing the merits of their content. The princess had nine suitors? Glamorous divorcées tend to attract men. Prince Philip, the queen's husband, wrote Diana kind letters denouncing Prince Charles's preferred companion, Mrs Camilla Parker-Bowles? So what: he was a good father-in-law. The most serious claim is that Diana feared a plot to kill her in a car crash. But even the most demonic assassin would have found it hard to plan the circumstances of her death (an impromptu high-speed late-night ride with a drunken driver). If she really feared a plot, why did she not wear a seatbelt?

Even worse for Mr Burrell's claim to fame, it now turns out that his book is not based, as claimed at first, wholly on letters swiped from his employers, but also on his memories and notes.

Just so much trivia, then? Not if butlering is your livelihood. John Thomas, who runs a training outfit for British butlers, calls Mr Burrell “absolutely diabolical”. Mr Wennekes's International Butler Academy in the Netherlands once asked him to give out prizes. He will not be invited back. Butler academies and guilds have received angry letters from the public reflecting disgust at Mr Burrell's treachery.

But hold the hissy fits a moment. Scandal-mongering by British domestic servants has a long and dishonourable pedigree. Prince Charles's valet of 12 years, Stephen Barry, wrote two insider accounts, published in America. The queen's own nanny, Marion Crawford (“Crawfie”), wrote an unauthorised book in the 1950s about royal nursery life. A book by a butler called Eric Horne called “What the Butler Winked At”, published in 1924, was a vengeful compendium of scurrilous stories about his aristocratic employers.

Like British nannies, another profession that has had brushes with scandal, the butlers' brand will recover. The American Academy of Hospitality Sciences (yes, really) says that the British accent is particularly sought after in New York. Demand outstrips the supply of available green cards. But confidentiality clauses do feature increasingly in the job contracts.

Will the royal family also bounce back? There are rumours of a truly damaging scandal waiting to break, with an eye-witness account of a sexual encounter between a (male) royal and a manservant. But if the evidence is as flimsy as Mr Burrell's other stuff, that should blow over.

Even so, the royals' battered reputation is again under scrutiny. There have been renewed calls for a

slimmer and more modern monarchy (fewer butlers, anyone?). One former adviser recommended that royalty “embrace” the celebrity culture, others suggest a more low-key approach, like the royal families in continental European countries. At any rate Prince William, son of Charles and Diana, has come out of it well. He appealed to Mr Burrell to shut up. When that failed, he offered to meet him. Off with his head?

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Diplomacy

Boiled alive

Oct 30th 2003
From The Economist print edition

Our man in Tashkent in trouble

BELIEVE one side of the story, and Britain's ambassador to Uzbekistan, Craig Murray, is something of a martyr, brought home ignominiously for his blunt and brave criticism of the torture, murder and beastliness that are commonplace under President Islam Karimov's regime. Adding insult to injury, it was all disguised with trumped-up charges of drinking, womanising and other high jinks. The real reason, supposedly, was complaints by America, which counts Uzbekistan as its most dependable ally in the region.

Unsurprisingly, British officials say this is utter rubbish. Mr Murray is home for “medical” reasons (depression, it is whispered). Far from stifling him, the government endorses his criticisms. Indeed, his controversial speech accusing Mr Karimov's regime of boiling two opponents to death is there, in full, in the Foreign Office's latest human rights report. Mr Murray remains the ambassador to Tashkent and will return as soon as he is well, the besuited smoothies insist.

The truth? Somewhere in between, probably. People who know the story well say that Mr Murray was indeed under “acute pressure” to temper his criticisms of his hosts, particularly after a telegram to London in which he claimed that Uzbekistan's human rights abuses were just as bad as those of Saddam Hussein's Iraq.

In August, the Foreign Office suddenly called Mr Murray to London and presented him with charges about his private life, which he strongly contested. He was told he had one week in which to “resign or face recall”. On returning to Tashkent, he found himself barred from his own office. A few weeks later, he decided, on his own accord, to return to London for treatment for stress-related problems.

And the Americans' role? Officially, nothing. American embassy officials in Tashkent insist that they were on the best of terms with him and “shared the same goals” on human rights. Yet it is not hard to imagine the flamboyantly outspoken Mr Murray fitting badly with transatlantic realpolitik, at a particularly sensitive time and place.

Following a spell in hospital and several weeks off, Mr Murray is now ready to go back to Tashkent. But his employer is unable to say when that will be. How odd.

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Asylum

Huddled messes

Oct 30th 2003
From The Economist print edition

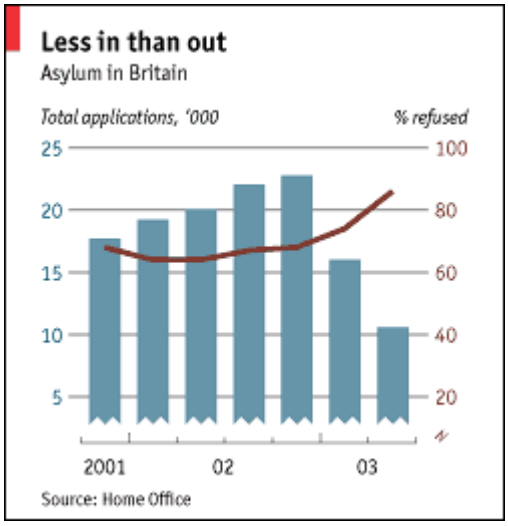
The elusive search for a firm, fair and workable asylum policy

IN DEALING with asylum seekers, the British government likes to think of itself as courageous. It is certainly energetic. On Monday, David Blunkett, the Home Secretary, unwrapped a new legislative package—the third in five years and the fifth since 1993. Once it is enacted, refugees who fail to co-operate with the immigration service—for example by destroying their documents—risk jail. The appeals process will be streamlined and maintenance payments trimmed. An already stringent asylum policy will become, in Mr Blunkett's words, “tough as old boots”.

The timing is propitious—numbers of asylum seekers are sharply down, thanks largely to regime change in Iraq and Afghanistan. Liberal opponents of hardline policies are in headlong retreat. Welfare payments have already been cut back; under the new proposals, some failed applicants will lose all means of support and their children will be taken into care. The legal profession, which has successfully (and expensively) challenged such measures in the past, is also coming in for a kicking. Lawyers are to receive less money to fight asylum cases, while solicitors suspected of sharp practice will risk having their offices raided.

Lawyers being almost as unpopular as asylum seekers, the measure is unlikely to cause controversy. But it looks suspiciously like an attempt to cover up faults elsewhere in the system. Lawyers are making a mockery of claims that admissions are being clamped down on: refusals of asylum are up (see chart), but so are successful appeals. The Immigration Appellate Authority allowed 21% in the second quarter of this year, with African plaintiffs faring particularly well. This suggests that initial decisions are poorly made, which would not be surprising: as the British Refugee Council points out, hard-pressed case workers in Croydon are unlikely to be expert in the intricacies of Somali tribal conflicts and their consequences.

Tough measures might deter would-be immigrants or reassure the twitchy British public that things are changing. Neither seems likely: last year, a Home Office study found that asylum seekers knew little or nothing about Britain. As for the natives, polls suggest that few believe the government has a coherent policy—hardly surprising, given that tough talk is accompanied by legal setbacks and amnesties (it was announced last week that 15,000 families would be given leave to remain).



How to escape this mess? Neil Gerrard, a Labour MP who has repeatedly criticised asylum policies, believes a radical rethink is needed. “We have been looking for legislative solutions to what are not really legislative problems,” he says. Boring bureaucratic reforms, of the sort that speed up the processing of claims, would almost certainly do more to reduce cheating (and misery) than gimmicky projects such as offshore processing centres.

Another step would be to enforce rulings against failed applicants—the weakest link in the system. Some 16,000 people were removed from the country in the last year, which is an improvement on past performance. To a large extent, though, they were soft targets—people with children and those from eastern Europe. Dealing properly with the others will not be “tough” so much as slow and costly.

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Debt collecting

Knock knock

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It's the debt collector. Relax—he's only doing his job, and not very well

AS BRITAIN'S debt mountain swells, so does the uncollected part of it. Last year debt-collection agencies handled 20m individual cases, together worth over £5 billion ($8.4 billion), of a total of £140 billion unsecured. Recovering credit-card debt is the fastest growing; other unpaid bills, from bank loans to book clubs, are piling up too.

But the pickings are thin, chiefly because the legal system is slow, inefficient, costly and toothless. A survey from Leeds University shows that big lenders like credit-card companies typically recover just 2-3% of outstanding balances through litigation. For debts below £1,000, going to law is often simply not worth the trouble.

Even if a creditor wins a court judgment that orders the debtor to pay up and licenses bailiffs to repossess property, the debt remains unpaid in most cases. Debtors may flit, hide, or simply turn out to have nothing worth seizing.

If litigation is mostly an empty threat, that leaves the second option: a debt-collection agency. The process starts with an intimidating letter. If that goes unanswered, the phone calls start. If the agency knows, or can find, your e-mail address and mobile phone number, they can pester you at work or in the pub. There are threats of litigation, and—worse—someone comes round to “discuss” the debt face to face.

But if the debtor weathers this, there is little more the collectors can do. Although often mistaken for bailiffs, they lack their powers. With a court order, bailiffs may enter private premises through open windows or unlocked doors; when collecting the state's debts, they are even allowed to force an entry.

So the debt collectors have had to adopt different, softer tactics. The larger agencies offer advice to debtors about how to pay off the money they owe. That is clever: if different collection agencies are pursuing different debts, there is a race to be paid first. In an industry that once featured bulky men with bad haircuts and no necks, over half the workforce is now female.

What that fails to collect is then sold on to agencies, at 8-17 pence in the pound, depending on its age. “Distressed” debt, which is really delinquent, can sell for 1 or 2p. These agencies can keep a debt alive as long as five years, sending reminders now and then in the hope that the debtor's circumstances will change.

Nick Wilson, author of the Leeds University report, says that, in the current system, the rational thing to do with debt-collectors is to “ignore them completely”. Though many debtors do undoubtedly want to pay off their loans, there is a strong incentive simply to unplug the telephones and ignore the doorbell. In practice, the main penalty for non-payment is a bad credit rating and no more loans. That is not too terrible a deterrent for a debtor who has borrowed irresponsibly.

So long as the legal system works equally badly for everyone, the lenders who lose out from the fly and feckless simply shift the cost elsewhere. A sorry state of affairs, but likely to last.

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Scotland

Haunted house

Oct 30th 2003 | EDINBURGH
From The Economist print edition

The Scottish Parliament's new home is wildly over budget. Why?

Get article background

IT WAS meant to be an inspirational symbol of the new, dynamic, post-devolution Scotland. Instead, the Scottish Parliament's future home in Edinburgh has become a monument to political profligacy: the original £40m estimate of construction costs has spiralled to £400m, maybe more—over £3m per member. This week Lord Fraser of Carmyllie, a former Conservative law minister, opened an inquiry to find out why.

He began with a revealingly incestuous media row. The BBC commissioned a film on the parliament building, from a company part-owned by one of its own star journalists, Kirsty Wark. She also happens to be on the five-member panel that chose the design. Two of the people most involved in the new building, her friend Donald Dewar, the Labour first minister who initially decided its site and design, and Enric Miralles, the Spanish architect, gave lengthy interviews for the programme, but are both now dead. Lord Fraser wants to view this material.

Though the film (itself now wildly over-budget) had a £330,000 public subsidy, the BBC says no. It says it promised interviewees that nothing would be broadcast (not even to an official inquiry?) until the building was complete. That is now hoped to be next summer, three years late—another reason for the inquiry.

Still, Lord Fraser can probably get at the facts from other witnesses. Some are startling: an £88,000 reception desk; windows estimated at £1.8m that are instead costing £11.8m, because security officials insisted on bomb-proof glass; walls put up and then torn down; and so on. But that's just the small change. The £40m figure, first published in 1997, was a civil-service estimate for a bare box on a cleared site. For a complex structure with lots of curved walls, odd-shaped rooms and an expensive vaulted debating chamber, all built on a tricky site, that £40m became £108m. Furnishings, landscaping, architects' fees and VAT added another £87m. By then, the new parliamentarians were at work, and they demanded more office space. That meant yet more changes and delays, made even costlier because Edinburgh has a building boom and prices are up.

Had that been the contractor's liability, no matter. But builders are not fools, and the type of contract selected by Mr Dewar puts all such risks on the client (the taxpayer). Mr Dewar chose thus because he wanted building under way before the new politicians started work. Otherwise, he feared squabbling would hold up the scheme, as with the Welsh Assembly's new building.

Still, the Welsh have learned from Scotland's mistake. The £55m that they have now decided to spend on their new talking shop may be four times the first estimate, but at least theirs is a fixed-price deal. That, at least, is the theory.

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Tax

Transports of delight

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From The Economist print edition

New transport developments should be financed by those who benefit

Get article background

COULD a new land tax be the way to finance better public transport? The Treasury seems to think so. A queue of stalled projects awaits the outcome of a review conducted by a former senior Treasury official, Adrian Montague, now deputy chairman of Network Rail. To be published early next year, it will look at the £10 billion Crossrail link between east and west London (see map), and whether money to pay for it could come from taxing the resultant increase in land values in the surrounding area .

It would make sense. The extension of the Jubilee underground line eastwards is estimated to have raised the value of properties in the immediate area by four times its £3.5 billion cost. Yet the state recouped only a tiny fraction of that huge gain. Most of the bonanza went to developers, owners and tenants.

Chucking around windfall gains like this is a wasteful business, the Treasury thinks. Without “a substantial contribution” from business interests, it says, Crossrail will not proceed. London's business leaders are reacting warily to the idea of a new tax, but they are desperate to secure Crossrail and not opposed in principle to contributing to new transport schemes.

The question is how. In the current system, planning permission is often given in return for payment to local projects. But this is piecemeal and opaque; it usually bears little relation to the potential returns. The developers of the huge Canary Wharf office complex in London's Docklands, for example, paid only about £300m towards the Jubilee line.

One possibility is the existing system of business rates. The idea would be to ring-fence areas where values were likely to increase, and then capture the increase in rateable income above the normal rate of growth elsewhere in London. This could yield as much as £2 billion by 2040, according to Transport for London, the quango that oversees the city's buses and underground trains. In the United States, a similar system, known as tax increment financing, has raised more than $10 billion over the past decade for a bunch of development and regeneration projects. Over the past ten years, Chicago has raised nearly 20% of its local revenues through such a tax. Minnesota has raised $3 billion since 1979. But implementing a wholly new system in Britain would be complex.

A simpler approach would be to levy an additional rate on business properties that would benefit from Crossrail. A study by CB Richard Ellis, a real estate services company, found that a 2p supplement on

commercial properties within 1km of Crossrail stations would generate more than £3 billion over 30 years.

Not only do government and business leaders still differ on how much each should pay, but the private sector is rightly worried about the way big transport projects are usually late and way over budget. For all that, it is clear that Crossrail, about which Britain has dithered for 20 years, will never be built without private cash. If the government is ready to decide, business should be ready to pay.

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Racing

Horsefeathers

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The cartel-busters go to the races. And make a false start?

IS BRITISH horseracing rigged by the posh people who run it? The competition watchdog, the Office of Fair Trading (OFT) has been questioning the British Horseracing Board (BHB) and the Jockey Club, the sport's toff-laden main governing bodies, about the rules they set. These include restrictions on the days that racecourses can hold races, on the prizes and on the provision of video feeds. Racecourse owners and consumers, arguably, suffer as a result.

The BHB, aided by a phalanx of lawyers and expert-witness economists, argued that racing was not a mere “betting opportunity”. It should be seen for “all that it means and stands for”. Not a business, in other words, but a national treasure.

The racing bosses think that the betting industry will be the big winner from deregulation, especially the upstart online “betting exchanges” that have so badly undercut the traditional bookmakers' business. These would gladly sponsor more big flat races, which the punters most like.

Yet the OFT seems to have chosen a peculiar target. Even though Ascot, say, cannot yet offer a £500,000 prize every day of the year, the British gambling industry already gives its customers some of the fairest punts in the world. That is certainly more than you can say for the financiers of the City of London, where fat fees on mergers, public offerings, and the like have hardly budged, even in the downturn. Pensioners and savers who see a juicy wedge of their money lost to fund managers' fees every year might also think that gambling offers a much more transparent balance between risk and reward.

If the OFT does force deregulation, the immediate winners will not be the betting public, but the companies, like Arena Leisure, who increasingly are buying up racecourses from the impoverished aristocrats who used to own them. These firms would certainly prefer to set their own racing calendar and prize money, rather than have tweedy types in London dictate them.

More competition may mean the loss of the smallest and financially weakest racecourses, and some decline in racing over jumps. But most punters, who bet from afar, will hardly notice. Those who prefer the more exotic forms of the sport will have to start paying their own way.

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Precipice bonds

Hard sell

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Precipice bonds were a risky buy. As buyers should have noticed

NICE money it looked, back in 2000. Returns on bank and building-society deposits had slumped, but solid-sounding “bonds” and “plans” offered up to five years of income at 10% or more. Many retired people were tempted; in all, the Financial Services Authority (FSA) reckons that 250,000 buyers put £5 billion into such schemes. Few will see much back. The FSA has already fined Lloyds TSB Bank £1.9m for “mis-selling” and told it to pay £98m in compensation. More fines loom.

Yet another mis-selling scandal, then, after those of personal pensions, of split-capital trusts and of endowment mortgages? No wonder the personal-finance industry has a dreadful reputation, or that the FSA's chairman, Callum McCarthy, and its chief executive, John Tiner, met sharp questions from the House of Commons Treasury select committee recently.

One of their answers is that the FSA's job is (and should be, though not everyone agrees) to regulate sellers, not the financial products they hawk. Another goes deeper: that the first, best safeguard is to educate buyers—for which the FSA has plans.

The precipice bonds paid the income as promised. But what about the capital? In one plan, still to mature, from Eurolife (now Nvesta), it all depended on the Dow Jones Eurostoxx 50 index. If at any time after the launch period it were to fall, however briefly, by 30%, that triggered a hefty penalty: for each 1% it is down, at its lowest point in the last 28 trading days before the plan matures in January, investors lose 2%. This week, the index stood almost exactly 50% down from the start. Twice 50% is...

Hence the name “precipice bonds”: your capital can fall off a cliff. Investors in some Nasdaq-linked Canada Life bonds that matured earlier this year lost every penny. Market recoveries since then are easing the pain a bit—one “plan” matured this month with a mere 81% loss.

The bonds were plainly ill-designed: the triggers for such losses were arbitrary (does a half-hour fall of 31% really affect a bond maturing maybe two years later?) and the resultant penalties excessive. Yet the risks were not usually buried in small print. Were the bonds truly mis-sold?

For many people who bought them the bonds were clearly unsuitable. But which buyers deserve compensation? With Lloyds TSB, the FSA drew a crude line: anyone aged 75 or more; or who had put over 35% of his savings into the Scottish Widows bonds concerned; or over only 20%, if he was a stockmarket innocent.

Yet that covers under half of the 50,000 buyers advised by Lloyds TSB, and none, though they may have cases of their own, who bought via other intermediaries or direct from Scottish Widows. And 70% of all precipice-bond buyers (not just these ones) took no advice at all. Not just careless or unscrupulous mis-selling, then, but rash, ignorant or greedy mis-buyers.

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Bagehot

A flight to competence

Oct 30th 2003
From The Economist print edition

By getting rid of Iain Duncan Smith, the Tories have given themselves a chance

Get article background

WHAT finished Iain Duncan Smith was not that his party was doing worse than anyone thought possible under his leadership, but that for the first time in years there was a glimmer of hope. It was Catch-22 for the Tory leader. The more convincingly upbeat his depiction of the party's prospects, the more he put the idea into the heads of his MPs that they would probably do even better without him.

In the early summer, there was scarcely any talk of replacing him. A moment of incipient insurrection the previous autumn had quickly blown itself out. There was a flare-up of anger when, subsequently, Mr Duncan Smith purged the party organisation of apparatchiks he considered to be disloyal. The comings and goings at Central Office eventually landed the party with a £500,000 compensation bill it could ill afford, but despite unhappy mutterings, there was little in the way of plotting.

Few were under any illusions about Mr Duncan Smith's fitness for the job, but an air of resignation had settled on the parliamentary party. When asked why they were willing to put up with this miserable state of affairs, MPs would typically mumble: “Crying shame and all that, dear boy, but I'm afraid we're stuck with him until after the next election. Trying to get someone else in would be too ghastly. We just have to knuckle down and make the best of a bad job.” The passive acceptance that Mr Duncan Smith would lead the party into the next election, come what may, was a measure of Conservative despair.

So what changed? Three things were critical. The first was the prime minister's post-war fall from grace—at long last, Tony Blair's aura of invincibility had slipped. The second was growing confidence that the government's public-spending gamble was failing, leaving the minds of voters potentially receptive to radical Tory ideas, including the use of vouchers in education and health care. Then came the nasty shock of the Liberal Democrat victory in the Brent East by-election in which the Conservative candidate came a poor third. In its aftermath came a succession of polls suggesting that, at best, the Tories were still flatlining with a level of support that would return Labour with a barely diminished majority.

In short, the “tipping-point” that optimistic Tories had predicted thrillingly appeared more than just a comforting fantasy, yet still the party seemed quite unable to exploit the opportunity. Winning the next election outright might still be a stretch, but a showing strong enough to signal that the party was back in business had become a reasonable objective. With something now worth fighting for, the fear of under-achieving because an inadequate leader had been allowed to plod lamely on was suddenly unbearable. Enough MPs drew the conclusion that deposing Mr Duncan Smith had become a patriotic duty.

Although the party leader retained a few loyal supporters, his position was far weaker than the 90-to-75 vote to dump him implied. Almost to a man the shadow cabinet gave him their votes, serenely confident in the knowledge they could not save him. Collectively, the parliamentary Conservative Party had decided on a flight to competence and nothing was going to get in its way. It is this that explains the melting away of rival leadership candidates. The shadow chancellor, Michael Howard, is by far the most able politician available to the Tories, with views that are broadly acceptable to mainstream party opinion.

That is his strength, but also his weakness. Mr Howard is a marvellously effective House of Commons performer who frequently discomforts the bulldozing chancellor, Gordon Brown. In contrast to Mr Duncan Smith, his private office has been a model of efficiency. Mr Howard's people are adept at digging out material that embarrasses the government. In spite of some bruising encounters during his time as home secretary in the last Conservative government, most notably when he evaded, despite fully 14

repetitions, a question put to him by the interviewer, Jeremy Paxman, he is confident and lucid on television. Nobody who sees him in action doubts that Mr Howard, at 62, is a heavyweight pro who punches his weight.

Something of the dawn?

Mr Howard's problem, however, is that the very things which make him now so attractive to his party, make him less so to those middle-ground voters he must win over if Tory fortunes are to be restored. He is an instinctive, combative right-winger. During his long stint at the Home Office, Mr Howard appeared only too happy to be the stuff of liberal nightmares, demanding ever tougher prison sentences and cheerfully threatening ancient freedoms. The present home secretary, David Blunkett, is no bleeding heart either, but it is worth recalling the extent to which Mr Howard became one of the most disliked members of a government that was loathed and derided even by its own side. When one of his junior ministers, Ann Widdecombe, described him during a previous attempt to win the leadership as having “something of the night” about him, the label stuck.

Of late, Mr Howard has learned to curb the brutal brilliance of old and has even developed a nice line in feline subtlety. To his credit, he was unimpressed by the opportunistic xenophobia resorted to by Mr Duncan Smith's callow predecessor, William Hague. Mr Howard, the son of a Romanian Jewish shopkeeper, temporarily retired to the backbenches in 1999 after being attacked by his own side while shadow foreign secretary for backing the “just war” in Kosovo. When he returned to front-line politics two years ago, with admirable political correctness, he cited the despair of his Folkestone constituents about the state of the health service as the reason.

Touchy-feely Mr Howard is not. But he has shown a willingness to shave off his harsher edges. The question is whether he can now do the same for his party.

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The next hot internet stock

How good is Google?

Oct 30th 2003 | SAN FRANCISCO
From The Economist print edition

Google is now more than a business: it is a cultural phenomenon. But where will it be in a few years?

Get article background

IF THE ultimate measure of impact is to have one's name become a new verb in the world's main languages, Google has reason to be proud. When they founded the company five years ago, Sergey Brin and Larry Page, friends at Stanford University, chose a word play on “googol”—the number 1 followed by 100 zeros—because their ambition was to organise the information overload of the internet in a transparent and superior way. These days, singles “google” suitors before agreeing to a date, housewives “google” recipes before cooking, and patients “google” their ailments before visiting doctors. Dave Gorman, a comedian, even has a popular show, the “Googlewhack Adventure”—a Googlewhack being what happens when two words are entered into Google and it comes back with exactly one match.

As search engines go, in other words, Google has clearly been a runaway success. Not only is its own site the most popular for search on the web, but it also powers the search engines of major portals, such as Yahoo! and AOL. All told, 75% of referrals to websites now originate from Google's algorithms. That is power.

For some time now, Google's board (which includes two of Silicon Valley's best-known venture capitalists, John Doerr of Kleiner Perkins Caufield & Byers and Michael Moritz of Sequoia Capital) has been deliberating how to translate that power into money. They appear to have decided to bring Google to the stockmarket next spring. Bankers have been overheard estimating Google's value at $15 billion or more. That could make Google Silicon Valley's first hot IPO since the dotcom bust, and perhaps its biggest ever.

That alone is enough to have some sceptics whispering “Netscape”. Now that the worst of the dotcom hangover is clearing, they wonder, will Google become one of the few valuable internet survivors, joining Amazon and above all eBay? Or will it simply be the next overhyped share sale to make its founders rich only to wither away miserably, either for lack of a sustainably profitable business model, or, like Netscape, because it finds itself in the path of that mighty wrecker, Microsoft?

The search for profits

Google, naturally, is determined to avoid Netscape's fate at all costs. This was why it made Eric Schmidt its chief executive in 2001. Mr Schmidt was 46 at the time—Messrs Brin and Page were in their twenties—and was the boss of Novell, a software firm decimated by Microsoft but given another lease of life under his leadership. He seemed suitably “adult” to turn Google into a money-making machine.

Mr Schmidt understood that the key to monetising all those customer searches (now 200m a day) was to place small, unobtrusive and highly relevant text advertisements alongside Google's search results. Advertisers like this system because they pay only if web surfers actually click on their links. And consumers either do not mind, or even learn to love these commercial links for their relevance, just as they appreciate the Yellow Pages.

Google did not pioneer this “paid search” advertising. That honour falls to Overture, a Californian firm bought this year by Yahoo! which still has about half of the $2 billion-or-so market. Nor did Google's founders readily embrace the concept. Mr Page was once heard to say at a trade show that commercial exploitation was “bastardising” the search industry. Mr Schmidt made the concept uncontroversial at Google, thereby helping paid search to become the fastest growing part of the advertising industry today.

The next step is to take this approach to advertising from the results pages of search engines and on to other web pages. Increasingly, web publishers—from hobby bloggers to small businesses—allow firms such as Google to crawl through the content of their pages and place relevant text advertisements in the right margin. Once page visitors click on the links, the webmasters share the revenues with Google. At a stroke, this so-called “contextual advertising” makes much of web publishing self-financing. This may result in better web content by making hitherto unprofitable online activities economically viable.

Meta Group, a consultancy, reckons that the market for paid search and other contextual advertising will grow to $5 billion by 2006. This is Google's main market opportunity (although it also gets some revenues from licensing its search technology). Currently, Google is thought to make annual profits of about $150m.

To be worth the rumoured $15 billion for longer than it takes a bubble to burst, it will need to raise its profitability substantially. That means matching such internet stars as eBay (market capitalisation $37 billion), but without the natural-monopoly advantages that have made eBay so dominant—the classic network effect of buyers and sellers knowing they do best by all trading in one place. For Google to stay permanently ahead of other search-engine technologies is almost impossible, since it takes so little—only a bright idea by another set of geeks—to lose the lead. In contrast to a portal such as Yahoo!, which also offers customers free e-mail and other services, a pure search engine is always but a click away from losing users.

Yahoo!, in fact, will probably be the first to attack. It now owns rival search technologies including AltaVista, AlltheWeb and Inktomi. With the contextual-advertising technology of Overture, Yahoo! now has under its own roof all the elements of the business model that made Google such a success. It cannot be long before Yahoo! turns from a lucrative customer of Google's into a powerful rival.

Even more frightening (especially to those who remember Netscape's fate in the browser wars), Microsoft smells blood. It is currently working on its own search algorithm, which it hopes to make public early next year, around the probable time of Google's share listing. Historically, Microsoft has been good at letting others (Apple, Netscape, Real) pioneer a technology before taking over, exploiting its dominance in desktop operating systems.

Google the new-age advertising agency makes money, but it is Google the search engine that builds the consumer brand which makes the ad agency powerful. Whenever users click on advertisements on Google's own site, Google gets all the revenues. Whenever users stray to other search engines, even ones where Google has placed sponsored links, Google has to share the revenues with the site owner. As the competition between Google, Overture and others heats up, Google's profit margins will fall.

This may already be happening. Craig Pisaris-Henderson, the chief executive of FindWhat.com, a smaller rival to Overture and Google in contextual advertising, reckons that Google's operating margins on sites other than its own must be much worse than FindWhat.com's (23%) or Overture's (12%) because it has been wooing advertisers away from Overture by being more generous to webmasters.

One thing that might help against Microsoft, says Danny Sullivan, the editor of SearchEngineWatch.com,

an online consumer guide to the industry, is Google's image of “niceness”—at least by implicit comparison with the forces of darkness in Redmond. Scott Banister, a pioneer of paid-search technology (and now a founder of IronPort, an e-mail infrastructure firm), thinks that Google has already built sufficiently deep networks with advertisers to mount an effective resistance to Microsoft's impending assault.

Even so, Google is no sure thing—as those who hope to sell its shares are no doubt aware. John Doerr and Michael Moritz, for instance, between them also brought Netscape and Yahoo! to market, and may remember their lessons. With luck, Google's owners will remember to work out a viable strategy for Google beyond the point at which they cash out.

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The music industry

Upbeat

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Is the threat of online piracy receding?

Get article background

PEOPLE in the music industry are feeling more optimistic than they have for years. Apple's digital music-download service, iTunes, has won customers in far greater numbers than once seemed possible. This week saw the launch of Napster 2.0, a paying version of the service shut down by big music and the courts in 2002 because its software allowed people to share songs for free. Legal, paid-for online services, music executives hope, together with lawsuits against file-sharers, could save the industry from internet piracy.

In April, in its first week, iTunes sold over 1m downloads. By the end of October it had sold about 14m. Now that Apple has made the service available to PC users—previously, only a Mac system would work—sales should soar still higher. Napster 2.0 has a library of 500,000 songs to choose from, 100,000 more than iTunes. Its strong brand makes it a formidable addition to the market.

But the fact that more people are willing to buy music online than seemed likely does not mean that the industry's problems are anywhere near over. In the next five years, says Informa Media Group, a media information publisher, digital sales of à la carte downloads and subscription services will grow 20-fold. But they will account for only $1.8 billion, or under 6%, of the global music market. Peer-to-peer file sharing will deprive the industry of $4.7 billion of revenues in 2008.

For impecunious teenagers and students, the fact that peer-to-peer sharing is free will always be compelling. Paying 99 cents for a song on iTunes, says one British teen, is unappealing because at that price she may as well buy the CD in a shop. Nor do the new services yet come close to matching the libraries of nearly all music ever recorded that the peer-to-peers boast.

As for the risk of a lawsuit from the Recording Industry Association of America, the selling point for new versions of peer-to-peer networks in recent months is that they can guard the identity of users. The most popular now is Earth Station 5, based in, of all places, the Jenin refugee camp on the West Bank. After the RIAA said it would sue, its software was downloaded more than 16m times in 90 hours. So far, it seems to work.

To glimpse the future, big music companies should look not at iTunes' encouraging numbers but at September's price cut by Universal Music Group, the biggest record company of all, which reduced CD prices for consumers by nearly a quarter. One reason for slumping music sales is that customers believe that CDs cost too much. Now, other firms will have to lower prices to compete with Universal. Discount stores such as Wal-Mart, Circuit City and Best Buy will drive them down more.

The success of iTunes has made clear to the music industry an uncomfortable truth: many people want to buy single tracks, not albums. Apple's data show that its customers bought 12 singles for every one album at iTunes. That compares with 0.02 singles per album in American stores, according to research by Sanford Bernstein. The best artists may tempt people to buy a whole album. But the industry can no longer rely on getting the price of an album as a reward for backing a band.

In the end, says Moby, an influential musician, the record industry will have to throw out its current business model. It will no longer be able to make huge profit margins on CDs that cost next to nothing to manufacture. To compensate for lower prices, he says, the industry needs to cut its marketing for artists by as much as four-fifths. Once the record companies have less marketing clout, and with internet distribution, says Moby, artists will be in a powerful position. “Why”, he asks, “is a record company any

more qualified to send an MP3 to iTunes than I am?”

One reason why people have placed a lower value on music in recent years is that record companies put so much of their energy into creating acts that are hugely, but only briefly, successful. That could change in future as the industry alters its business model. If companies cannot make money by selling online, one option will be to try to get a piece of a band's other revenues. They would then have a strong incentive to nurture long-term quality.

Korda Marshall, managing director of East West Records, a division of Warner Music Group, developed “The Darkness”, a new British band soon to tour America. He wanted to avoid billboard hype. At one point the marketing machine wanted to kick in, he says, but that could have shortened the band's future. Sanctuary, a British company, earns half of its money from live concerts, artist management, merchandising and music DVD sales and the other half from CD sales and licensing. With artists such as Neil Young, the Cranberries and the Pet Shop Boys, with loyal fan bases, it grew revenues by 26% in 2002, as recorded music sales globally fell by 7%.

For the consumer, buying music is likely to mean lower prices, more choice and, possibly, higher quality. But for the music industry as it exists today, despite the optimism caused by iTunes and the new Napster, the future remains uncertain and, compared to the past, bleak.

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Corporate parties

Money well spent

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Bring them back, please

Reuters

Party on, Dennis

DANCING toga-clad ladies, gladiators and a naked-woman-with-exploding-breasts birthday cake: the party that Dennis Kozlowski, the former boss of Tyco, threw for his wife in June 2001 appears to include all the essential features of a great night out. Such are the times, however, that a censored video of the festivities, released by prosecutors to the press this week, is now vital evidence in Mr Kozlowski's trial for "enterprise corruption". His alleged crime? Together with other claimed acts of corporate looting, Mr Kozlowski split the $2m bill with Tyco's shareholders.

For a lucky few in America, the partying still goes on. The magazines of the Condé Nast stable—*Vogue*, *Vanity Fair* and even geeky *Wired*—strive as diligently as ever to create that buzzy mix of celebrity guests, alcohol and pathetically grateful hacks that is deemed crucial to the success of the business model. Marc Benioff, the founder of Salesforce.com (and another darling of the financial press) gushes that his software firm is "constantly throwing parties, as it is the key to getting the word out that Salesforce.com is a success."

But for the rest of corporate America, it is back to cheap wine and curly cheese nibbles in the staff canteen. The Bubble Lounge in San Francisco, a popular haunt for dotcom parties, has long since lost its fizz. Ted, Inc, the corporate vehicle for Ted Kruckel, a masterful PR man and event planner of the late 1990s, went bust this year. Even Condé Nast's stamina inspires revulsion as well as praise these days. Writing in the *Wall Street Journal*, Toby Young, a disgruntled former employee, recently administered a frenzied kicking to the "glossy posse", even calling on New York's attorney-general, Eliot Spitzer, to take a look at Condé Nast's Chinese walls.

At the height of the boom, firms argued that parties were essential. They raised morale. They helped recruit those in-demand twentysomethings who were supposed to know how to build the new economy. As the bubble inflated, the desperation of firms fuelled ever-greater extravagances. Pixelon.com blew $10m on "iBash", a party in Las Vegas featuring Kiss, the Dixie Chicks and a reunion performance by The Who. (The firm's investors were later to learn that Michael Fenne, the firm's founder, was in fact born David Stanley, and had been on Virginia's most-wanted list for several years after skipping probation.)

With the prosecution of Frank Quattrone, another celebrity ex-boss, ending in a mistrial on October 24th, the people will be hoping to do better against Mr Kozlowski. Prosecutors will argue that Tyco paid for a

private party for its boss's wife. Mr Kozlowski's lawyers, on the other hand, will stress the important business deals and co-worker bonding that took place off camera. Notwithstanding their own fondness for free alcohol, America's upstanding journalists have already made up their minds: this is the best evidence yet of “corporate excess”. Maybe Mr Kozlowski's real mistake was not to invite a few hacks.

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Internet regulation

Time for UN intervention?

Oct 30th 2003
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A regime change may topple ICANN, the controversial internet regulator

WHEN Augustine arrived in Carthage, the saint found a seething, bubbling cauldron of wickedness. A similar fate has befallen the controversial internet address regulator, ICANN (the Internet Corporation for Assigned Names and Numbers), which hosted its trimestrial public board meeting this week in the Tunisian city. Five years after it was founded as a quasi-private body with the backing of many governments, ICANN now faces its most severe test. The environment for which it was designed has radically changed: the business of selling domain names collapsed; governments are keener to oversee the internet; and ICANN itself proved maladroit in carrying out its tasks. This autumn, these three factors collided. How ICANN handles the situation will determine whether the internet's core infrastructure remains managed by industry rather than by international treaty—and highlights the need to balance stability and innovation.

The most visible dispute is between ICANN and VeriSign, a firm that operates the .com and .net databases (and earns $6 a year per address). In September, VeriSign launched a service that automatically redirected users who mistyped a non-existent .com or .net address to VeriSign's own search engine, where it earned advertising revenue. Alas, this disrupted other internet technologies: it fooled certain spam filters into assuming that some junk e-mail was legitimate, for example. After ICANN threatened legal action, VeriSign agreed to suspend the service.

This shows how much the market for internet addresses has changed. VeriSign needs new services to generate revenue, since selling names and operating the registration system is not as lucrative as it once appeared. In 1998, it had a monopoly on .com and .net addresses; now, after ICANN introduced competition, its market share is roughly 25%. When VeriSign acquired the registration business in 2000 for a staggering $21 billion in shares, it justified the price tag based on the potential to bolt its web-security software on to the underbelly of the internet's address infrastructure. But such synergies failed to materialise. In October, VeriSign sold its retail name-registration business to Pivotal Private Equity for a paltry $100m.

More importantly, VeriSign's willingness to risk antagonising its regulator reveals the extent to which ICANN's authority is in doubt. Some governments feel that they could do a better job. At a pre-meeting in September for the United Nations' World Summit on the Information Society, which begins in Geneva in December, a number of countries backed a proposal that a different body, the UN-affiliated International Telecommunication Union, should take on the activities that are currently within ICANN's remit. In policy circles, the idea represents a significant snub to the notion of private-sector management of the internet's addressing system.

The threat of being ousted in favour of the ITU helped to push ICANN to confront VeriSign, to prove that it was up to the task of keeping order on the net. But it also exposed an irony that was made clear at this week's board meeting in Carthage, where ICANN's allies and enemies congregated. In the past, the debate over how to run the internet has focused on the risk that too much government regulation might stall innovation. Indeed, industry and governments themselves actually established ICANN, rather than hand the internet to the UN, to prevent just that outcome. But after the dispute with VeriSign, it is clear that an equal threat facing the network is unbridled commercialisation. Ultimately, the internet needs to be regulated in order to be preserved.

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European regulation

Less toxic

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Europe's proposed chemicals regulations are less nasty than feared

MAMMON has won a victory of sorts over the tree-huggers. Plans to regulate the chemicals industry in Europe approved by the European Commission on October 29th amount to a minor triumph for industrial lobbyists over environmental campaigners. “I can live with it,” was the less-than-warm endorsement from Margot Wallström, the environment commissioner, who had wanted something far more ambitious. Her colleague, Erkki Liikanen, the commissioner for enterprise, was happier, claiming that the right balance had now been struck between growth and employment on the one hand and health and the environment on the other.

Underlying the Commission's proposal is the fear that the world is awash with unknown chemicals doing untold damage to health and happiness. It proposes that any business making or importing more than one tonne per year of a chemical must register safety information on a central database. About 30,000 chemicals will be involved. Those deemed riskiest to health or the environment, or produced in the greatest quantity, will be subject to evaluation by the authorities. Nasties, such as carcinogens and toxins, will need special authorisation before they can be used.

The Commission gave in too easily to industry, say the greens. Pro-industry lobbyists had included Gerhard Schröder, Jacques Chirac and Tony Blair, who jointly wrote to Romano Prodi, the Commission president, giving warning of the dangers of excessive regulation.

How far did the Commission retreat from its draft proposals? A requirement to provide safety information has been softened for some 20,000 chemicals produced in quantities of less than ten tonnes per year. A requirement to switch to alternative chemicals is now less binding. Firms will have the right to keep some information about products confidential. There will be fewer constraints on imports into the EU.

Still, the chemicals industry continues to complain that European producers will be put at a competitive disadvantage by the regulatory demands. Restrictions are much less onerous elsewhere, particularly on chemicals that have long been in widespread use.

The lobbying battle will now move into the European Parliament and the Council of Ministers from national governments, and may drag on into 2005 and beyond. Meanwhile, the Commission would do well to reflect on the downside of its recent embrace of rampant pro-consumerism. Increasingly, it justifies intervention in all manner of things on the grounds of protecting consumers. The fight over regulating chemicals has demonstrated that consumer protection comes at a price. For Europe's three biggest economies, the price proposed was much too high.

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African mobile telephones

Ain't no mountain high enough

Oct 30th 2003 | KINDU, CONGO
From The Economist print edition

Ringtones from jungle to mountain top

AFTER hours flying over unbroken forest, an aircraft crosses the Congo river and lands in Kindu, a ramshackle town from which roads are impassable and few homes have electricity or piped water. But switch on a mobile telephone and you can talk to the world. Vodacom, a South African firm part-owned by Britain's Vodafone, recently set up operations there to serve a garrison of homesick South African peacekeepers. Now, as in dozens of other remote sites in the country, it also has many eager Congolese customers.

Vodacom woz here

Almost every building in Kindu is decked out in Vodacom's colours and logo; children brandish corporate plastic bags and T-shirts. “That was the cheapest and best branding we could have done. We shipped in paint and brushes, the people did the rest,” says Alan Knott-Craig, Vodacom's boss. Other tasks are harder. Getting political backing was essential—President Joseph Kabila personally intervened to clear imported equipment through customs. After being flown to remote spots, much of it is “literally rolled on logs as if we were building the Pyramids,” adds Mr Knott-Craig. Some transmission masts need their own generator to supply electricity; many have a siren to deter thieves.

Is it worth it? Vodacom and its South African rival, MTN, think so. Less than a decade ago only a handful Africans had mobile phones. Now 15m South Africans use them and the two firms, along with MSI Cellular of Amsterdam, are looking to expand fast throughout the rest of Africa. And not just in big cities. Where once food rations were dropped, aircraft now unload mobile-phone equipment, though only where the right regulations and political support for investment exist. Even on Africa's highest peak, snow-capped Kilimanjaro, thanks to Vodacom you can phone home, to tell friends and family how peaceful it is up there.

Vodacom has notched up over 8m African customers in four countries; MTN has over 6m dotted around Africa. Both still earn most of their profits from South African sales: Vodacom boasts of continuing to sign up 400,000 new home customers in a good month, though other customers are lost. But both expect a growing share of revenue (over a third already for MTN) to come from increasingly liberal markets in the rest of the continent.

Until now, the two South African firms have not clashed directly elsewhere in Africa. Vodacom stuck to south and central Africa, notably targeting literate but poor Tanzanians fond of text-messages and

expanding in Mozambique. MTN has 1m subscribers in two poor, rural but growing countries: Uganda and Cameroon.

But this cosy arrangement is about to change. Nigeria's population of more than 130m people has caught the eye of both firms. MTN is already there: it paid $285m for a licence two years ago. Revenues and profits have easily beaten the most optimistic predictions, boasts the group's chief executive officer, Phuthuma Nhleko. Its first full operating year was profitable. Some 100,000 subscribers signed up immediately; there are over 1.2m now and 1.8m are expected by next year.

Now Vodacom wants to join in. It recently made an offer of at least $150m to buy just over half of the country's second-largest mobile firm, Econet Wireless Nigeria. That deal is bogged down by a court case brought by an unhappy rival that wanted to buy more of EWN itself. The case might drag on, but the government is keen to foster competition.

Two years ago Vodacom would not have wanted to enter Nigeria, but there is talk of a network for 10m customers there. Why the confidence now? MTN led the way and made a profit on barely 1% of the population, so the risk is lower than once thought. And Nigerians are eager to spend: fixed-line services are awful to non-existant, just as they are in most of Africa, and there are more customers with money than many assumed. Rivalry between the two companies is bound to bring lower prices, so even more subscribers will sign up. As if to prove it, MTN recently said that its tariffs in Nigeria will drop by 20%. Let the competition begin.

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Business and politics

Friends in high places

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A new study sheds light on the links between firms and governments

AS THE high-profile arrest of Mikhail Khodorkovsky, Russia's richest businessman, shows, enemies in high places are bad for business. Friends in high places are, of course, a different story. Notorious examples abound of tycoons who have profited from political favours. Companies from Citigroup to Gazprom pack their boards with former (or, where legal, current) politicians in the hope that connections will bear fruit.

A new study of 20,000 publicly listed firms in 47 countries tries to establish whether the conventional wisdom that connections matter is really true, and, if so, how much connections are worth. Mara Faccio, an economist at Vanderbilt University's Owen Graduate School of Management, scoured her database for evidence of political connections. These she defined as existing if a politician, former politician or someone cosy with the current governing party, sits on a board of directors or is a big shareholder (directly or indirectly controlling more than 10% of voting shares, since at this level of control, most countries require public disclosure). So Fininvest, of which Marina Berlusconi, daughter of Italy's prime minister, Silvio Berlusconi (himself the biggest shareholder in four publicly listed Italy companies), is a vice president, is considered connected. So are the 18 publicly listed Italian firms in which the hugely influential Agnelli family hold big stakes. So too is Gilead Sciences, where Donald Rumsfeld, America's defence secretary, used to be chairman.

The fortunate 541

Some countries are better than others at tracking ownership; some politicians are better than others at disguising their equity stakes (through shell entities and other sneaky structures); and disclosure rules vary across countries. Yet Ms Faccio found 541 politically connected firms, comprising 7.7% of the market capitalisation of the firms in her sample.

Not surprisingly, politically linked firms are most common in countries famous for high levels of corruption, as well as (a little less obviously) in those that impose barriers on foreign investment (such as Malaysia). In Russia, where links between business and politics grew strong due to corrupt privatisations when oligarch friends of Boris Yeltsin “bought” assets at firesale prices, connected firms accounted for 20% of listed companies and an eye-popping 87% of total stockmarket capitalisation in 2001 (see chart).

Perhaps surprisingly, some countries with more transparent systems (a free press, established democracy and strong legal system) also have a high incidence of connected firms. In Britain, for instance, connected firms made up 39% of market capitalisation. But unlike connections in Russia or Indonesia that begin in the political realm, those in democracies tend mostly to be built from below by firms pursuing legal and somewhat transparent strategies, such as lobbying. This is not necessarily a good thing. But Ms Faccio believes that in transparent countries such connections are less problematic because corrupt officials can be voted out. From this perspective the controversy over business ties to the current Bush administration may, up to a point, be a sign of political and economic strength, not weakness.

Rules restricting conflicts of interest also have an effect. Malaysia, for instance, restricts only the head of its two elected legislative

bodies from sitting on company boards or owning big shareholdings. So it has a greater number of connected firms than Chile or Portugal, which both forbid elected officials from taking board seats. America's conflict of interest rules prohibit members of Congress from taking payments for sitting on a company board.

When Ms Faccio compared well-connected firms with the rest, she found that, broadly, connected companies enjoyed lower tax rates and higher market shares than otherwise similar firms. But they also had relatively more debt and, strikingly, a lower return on equity. Why? One possibility, says Ms Faccio, is that firms closely tied to politicians have unskilled (but well-connected) managers in place. And connected firms may have a core competence in corruption rather than in creating shareholder value. Who needs business know-how, when you know who?

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Face value

Talk man or walk man?

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AP

Nobuyuki Idei has produced a bold-sounding plan to turn around Sony, but it will not be easy

Get article background

WHEN Akio Morita, the late founder of Sony, took home the small stereo-cassette player from which his engineers had removed the record function, he soon realised that this was going to be a popular item. And so was born the Walkman, one of the world's hottest consumer-electronics products. Since 1995, Sony has been led by Nobuyuki Idei, but the hit products have seemed fewer and the Japanese company's fortunes have grown bleaker. This week, Mr Idei made his latest attempt to get to grips with the problem when he announced a bold (by Japanese standards) restructuring plan for Sony's core electronics business.

Sony will shed 20,000 jobs (7,000 of them in Japan), shut 30% of the firm's plants and aggressively streamline its supply chain. More assembly work will be shifted to low-wage countries, such as China. Sony's Japanese operations will concentrate more on high-end technologies, such as sophisticated semiconductors for its devices. Mr Idei pledges that, by 2007, Sony's operating profit margins will rise from 3% now to 10%.

These are bold promises. Mr Idei tried to restructure Sony four years ago, but the results, quite clearly, did not go far enough. In April, as though the earth had opened beneath its business model, Sony revealed that revenues and profits had plunged unexpectedly. There had been some warning tremors during the preceding two years, as profit margins on Sony's consumer-electronics products began to fall. But the scale and suddenness of the bad news rattled investors. Nagging doubts about Sony's strategy gave way to vigorous condemnation of the firm that was for years a symbol of Japan's better economic side.

Yet for all the embarrassment it caused, April's so-called “Sony shock” has given Mr Idei an excuse to make more painful changes and, he hopes, to overcome internal resistance to those changes. Until now, Mr Idei has done what comes easily: changing everything but the electronics business. He has pressed the media content people to watch the bottom line. He has shuffled business units in an effort to see his own company more clearly. He has brought in outside directors, and is trying to improve internal

financial reporting along western lines.

Mr Idei has also used a gradual globalisation of operations and the promotion of rebels from outside the company mainstream to try to send a message to Sony's core product developers in Japan. One outsider who deals often with Mr Idei describes his approach to change as “top-down; outside-in”. The Sony shock has emboldened the boss to intensify the assault from both directions.

But is Mr Idei the man to fix Sony? Sony watchers invariably focus on two traits: his interest in big ideas rather than details, and his talents as a global manager who embraces western business practices and talks up the Sony brand. Indeed, it was largely this combination that led Mr Idei's predecessor, Norio Ohga, to pass over the young manager's seniors and hand-pick him for the top job. In a company that has been largely built by gizmo-loving engineers making path-breaking products, Mr Idei was instead a marketing and advertising man. He had an eye for the big picture and knew how to defend his ideas.

Mr Idei's internationalism helped him win the job. Mr Morita was a successful travelling ambassador for Sony, building its global brand. Hence someone with a world view who was also media savvy seemed to be ideal to help the company move into the digital age. Mr Idei has studied and worked in Europe and is at ease schmoozing with foreign executives.

Yet Mr Idei's inability to master technological nitty-gritty has hurt Sony. Many of the global aspects of his job—overseeing the American operations, adopting western boardroom practices and supporting a worldwide brand—have been much easier than revamping the core electronics business, which at its heart remains a Japanese company dominated by engineers. Their resistance to change would vex any chief executive, but Mr Idei's lack of an engineering background makes it harder for him to understand some of the things going on in the development labs.

Electric dreams

Although Sony desperately needs cuts such as this week's, high costs are not its only worry. The firm seems unsure of whether it is leading, following or standing still. Mr Idei's overall vision seems broadly right. He wants to exploit the spread of broadband technology by marrying media content with a range of networked electronics devices which can use that content and communicate with each other. But Sony now sprawls across so many industries—from music and film content, to home electronics, to portable gadgets—that it can barely take a step in any direction without one business unit tripping over another.

Worse, it has lost its swagger in the consumer-electronics industry. Sony's two main sources of profit these days are the fickle film business and a single blockbuster line of hardware: PlayStation game consoles. These will prove hard to replicate in other parts of the company. Sony has even had to court its fast-rising rival, Samsung, with a deal announced formally this week for the South Korean company to help it make LCD flat-panel televisions, one of the hottest-selling items in home electronics.

This week's plans will take Mr Idei's restructuring efforts much closer to Sony's Japanese core than he has ventured to date. Cutting costs will buy time, and slimmer operations will make it easier to implement his strategy. In the end, however, the entire effort will fail if Mr Idei does not address a huge internal conflict at the heart of the firm—and indeed the electronics and entertainment industries: whether to develop devices that make media content easier to handle, or to do all it can to protect content from profit-eroding piracy. Sony Music wants profits from the score to “Dead Man Walking”; Sony's gadgets must adapt to technological change that may leave the Walkman dead.

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Emerging markets

Fishing in frothy waters

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Emerging-market bond and share prices have risen dramatically this year. How big a setback are this week's goings-on in Russia?

IN THE violent financial storms of October last year, when concerns about America's financial system were at their peak and shares were slumping amid fears about corporate misdeeds, unsustainable debts and economic growth, few expected shares to bounce back sharply. But bounce they have. America's S&P 500 index has climbed by 35% from its low on October 9th 2002. Stockmarkets in other developed countries have risen by a touch more.

However, emerging markets have made their rich-country counterparts look leaden. Having bottomed on the same day, they have since jumped by 60%, driven partly by investors from rich countries. Despite having been bitten badly in the Mexican crisis of 1994-95, the Asian crisis of 1997, and the Russian debacle of 1998, these investors have decided that the prospects for many emerging markets are good and the rewards irresistible. Better yet, they think, the targets of their affection are more stable, economically and politically, than they were.

All of which makes this week's events in Russia more than a little troubling. Only three weeks ago the country's sovereign credit rating was raised to investment grade by Moody's, a big rating agency. On October 25th Mikhail Khodorkovsky, Russia's richest man by dint of being the biggest shareholder in Yukos, the country's biggest oil company, was arrested at gunpoint and charged with fraud and tax evasion. This is not what you expect in an investment-grade country. Russian bond prices dropped a bit, but then recovered. Shares fell by more, and recovered less.

The Russian market now looks distinctly frothy. “There are definitely signs of a bubble in Russia,” says the chairman of one bank that does a lot of business there. The same signs can be seen in China. Flights to both countries are packed with bankers. The better restaurants and hotels are difficult to book, and there is an excess, in Moscow at least, of loud, self-satisfied conversation about how many millions can be made in the shortest time. The best indication of a bubble in Russia, says one banker, is what restaurants now charge for a Caesar salad.

Last year net private-capital flows to emerging markets were less than half their mid-1990s peak. But they have been rising, often to countries with a poor record of providing a decent return, or even of giving the money back, that are now seen as must-have investments. This year, lending by foreign banks and bond investors, direct investment and share purchases have all increased.

In recent months flows into emerging-market equity mutual funds have picked up hugely, according to

Brad Durham of EmergingPortfolio Fund Research, which tracks emerging-market flows (see chart). Overall, the equity funds that it covers have attracted $5.7 billion so far this year—the first net inflow since 1999. Funds dedicated to specific countries have reaped $3.1 billion. Flows into Latin American and European funds are still pretty meagre. Those into Asian funds are much fatter: the inflow of $438m in the third week of October was the largest since Mr Durham's firm started following the numbers in 1996. State Street, a bank, says that about $17 billion has gone into emerging Asian equities in the past three months—the most since it started watching in 1995.

Emerging-market bond funds have also had a bumper time. Investors started sniffing around late last autumn: last year saw the first net inflow into such funds since 1995. But in April the money started pouring in: this year's inflow of $2.7 billion into funds tracked by Mr Durham is already about four times last year's total. Most of the money has been invested in countries that have had trouble repaying in the past: almost a fifth of it is invested in Brazil and almost one-sixth each in Russia and Mexico. The next most popular destination, a little improbably, is Colombia.

With better growth prospects and a wave of foreign money, it is little wonder that emerging-market stock and bond prices have been racing upwards. Emerging European stockmarkets have done twice as well this year as the continent's richer half. Russia's market is up 41% in dollar terms. In Latin America, stocks in Brazil and Argentina have more or less doubled. Curiously for an overheating economy in which foreigners are eager to invest and locals like a bet, China's stockmarket has barely risen this year. But “H” shares, which foreigners can buy and are listed in Hong Kong, have done much better. Most other Asian stockmarkets have also been flying.

Bond markets' performance has been, if anything, more spectacular still. EMBI+, an index of emerging-market bonds compiled by J.P. Morgan, has returned some 23% this year. The spreads of emerging-market debt over American Treasury bonds have fallen by half. Anyone with the nerve to invest in Nigerian debt would have seen spreads snap in against Treasuries by 24 percentage points. Brazilian bond spreads have tightened by 16.5 points.

Russia's bonds have tightened only by 3.3 percentage points. Disappointing? Not when the spread is less than three percentage points, about five points less than in the months before the 1998 default, or that it reached about 80 percentage points at the height of the Russian crisis—or that it has fallen by half this year.

Corporate lending, too, is picking up sharply in Russia. In the third quarter syndicated lending to Russian companies, mostly by foreign banks, was almost 70% higher than in the same period of 2002. And on much finer terms. Yukos has just arranged two syndicated loans, worth $1 billion, at only 1.5 and two percentage points more than the rate at which the world's best banks lend to one another. In emerging Asia, investors are also snapping up corporate bonds, and a few sovereign ones: China recently issued $1 billion-worth of (admittedly rare) bonds at a spread of only half a point over Treasuries.

The downside for bond investors is clear. They are now getting scant reward for the risk of lending to countries that may not be reforming as quickly as investors would like to believe. There is also the risk of default. Shares are a different story. These are still fairly cheap by historic standards because profits are rising too. Asian shares' price-to-earnings ratio is 11, compared with an average over the past 15 years of 16, according to BCA Research. Latin America has a ratio of nine, compared with a historical average of 11.

Emerging stockmarkets generally behave like rich-country ones on speed, both up and down. As long as the world economy continues to pick up, and investors' appetite for risk remains sharp, they will probably continue to do well on average. Unless, of course, a big emerging market falls apart once again.

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Investment banks and outsourcing

Young, cheap and American

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Why hire Indian programmers when Americans cost less?

MANY are the investment banks that have expanded their back-office operations to countries such as India. It's a lot cheaper to hire someone in Bangalore than in Boston, and the state of the markets has meant that banks have been desperate to screw down costs. This has been especially true of their information-technology departments. Indian programmers come at a small fraction of the price of their rich-world counterparts, and are often better qualified and more competent. Now the investment-banking arm of Citigroup has hit on a novel way of reversing the trend: hiring American college undergraduates instead and sitting them at unused desks.

Such seats are in plentiful supply, and not just because business is not too brisk and there are fewer bankers than there were. It is also because regulators force investment banks to maintain “continuity of business” arrangements, in which certain desks and whole areas must be set aside in case there is a power cut on the trading floor, or a building is blown up. These must be fully operational.

So why not fill them with techy college students? For a start, they are cheap. Citigroup pays them $17 an hour, which works out at about half what the bank would have to pay programmers in India. It makes use of expensive space that it has to have anyway. Moreover, the bank avoids having to shovel off jobs to India (good in the current climate, when there is so much hand-wringing about America's jobless recovery). It gets first crack at talented students when they leave college. And it develops better relationships with some of America's top universities.

So far the bank has hired about 100 college students, many from MIT, and wants to take more. “It's a win-win,” says one insider. Hard to quibble with that—unless, of course, you happen to work in Bangalore.

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An American bank merger

Bankoholics

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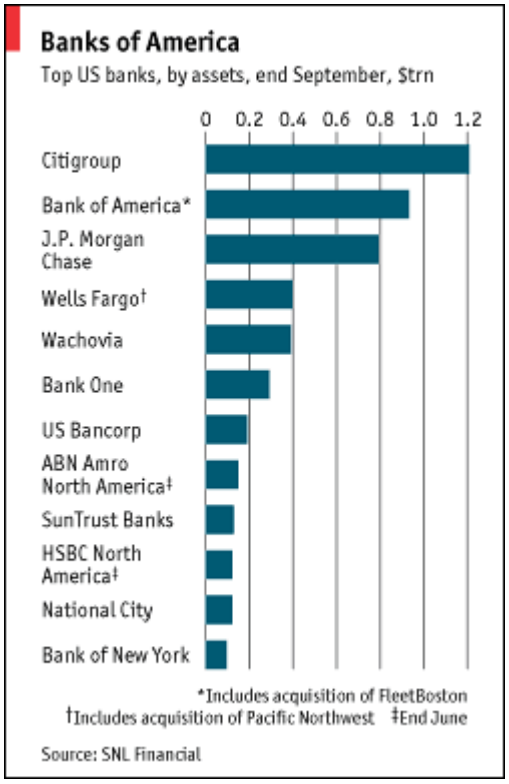
In buying FleetBoston, Bank of America returns to its old shopping addiction

IT ONLY takes a look at a map to see why Bank of America (BofA) made an agreed offer for FleetBoston Financial on October 27th. BofA already had a franchise stretching down from the north-west corner of the United States to California, across the south and up the east coast from Florida to Maryland. Adding FleetBoston, the largest bank in New England, will create a Bank of America worthy of its name. The purchase, for $47 billion-worth of BofA shares (at pre-deal prices), will create the biggest bank in America, by assets, after Citigroup. It is the most valuable merger in American banking bar that of BofA and NationsBank in 1998.



The new BofA's vast franchise has advantages: a diverse deposit and lending base, efficiency in marketing and technology, and perhaps a network of corporate contacts that may be useful in strengthening investment-banking operations. In all these areas BofA has done well in the past two years. Its chief executive, Kenneth Lewis, has found the value buried under the chaotic, costly expansion strategy of his predecessor, Hugh McColl.

FleetBoston's shareholders were delighted by the deal. No wonder, when BofA offered a 42% premium for their paper. FleetBoston's stockmarket value rose by one-quarter when the deal was announced. BofA's shareholders, however, were justifiably aggrieved at the squandering of their money. Under almost any realistic scenario, the deal will reduce earnings per share for years to come. Not surprisingly, BofA's shares have fallen sharply: the merger has outweighed recent news of strong earnings and improving credit quality. “There's a little bit of Hugh McColl in Ken Lewis after all,” says Kathy Shanley, of Gimme Credit, an independent research firm.

Although the deal extends BofA's geographical reach, it does little to correct its long-standing limitations. Both BofA and FleetBoston have spent a lot on building up their asset-management arms, but FleetBoston's has not found a distinctive place in the market and BofA's is at the centre of the ongoing investigation into improper trading of mutual funds. Despite its recent strides and a strong presence in syndicated lending, BofA's investment bank is in the second tier. It was bruised by its involvement with WorldCom and its notorious former boss, Bernie Ebbers. FleetBoston will bring little to bolster it.

Sweet on Fleet

What might make the takeover a success? Cost savings? These are unlikely to be large when there is little overlap in such obvious areas as branch networks. A favourable economic climate? Yes, although that would be welcome anyway. A smooth integration of operations? Luckily, Mr Lewis is considered a master at this. Unluckily, the recent history of FleetBoston is an example of what might go wrong. The merger that created it in 1999, out of a patrician Boston institution on the way down and a Rhode Island bank on the way up, produced none of the expected synergies. Losses ensued, rendering the bank vulnerable to takeover, despite strong local opposition to an owner from outside New England.

Although its chief executive, Charles Gifford, offered the usual blather about maintaining the bank's

independence, FleetBoston had been courted by a number of suitors before falling into BofA's embrace. Citigroup “gagged” on the price, according to one investment banker. Others thought to have been interested include Bank One, Wells Fargo and Wachovia.

Inevitably, the announcement begat speculation about other deals to come. The takeover has widened the gap between America's top three banks and the rest: in some eyes, that puts pressure on the biggest of the other banks to buy something in order to catch up. The share prices of numerous middle-sized institutions leapt. But the heavy price paid by BofA and the market's punishment of the acquirer's shares weigh against future deals.

The strongest argument against future takeovers, however, is that the most desirable target banks produce better returns than the likely bidders. This raises the question of what value would be created by more acquisitions. The returns on equity of Washington Mutual, North Fork and Golden West are at least as good as those of possible predators; ditto SunTrust and PNC. The biggest gainers from acquisitions in the past have been buyers' competitors: BB&T (based in North Carolina) and Wells Fargo (in California), both rivals of BofA. They believe they have gained from others' obsession with shopping. Buyers' managers have become distracted and their customers alienated.

Indeed, the canniest banking acquisition this week may have been a much smaller one: the $1.3 billion cash purchase of Bank of Bermuda by Britain's HSBC. The premium was only 16%, for which HSBC has bought its way into a local oligopoly and a key market for offshore fund administration and private banking. It beats overpaying for an American retail franchise, however rich. And after the announcement, HSBC's shares went up.

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Socially irresponsible investment

Virtues of vice

Oct 30th 2003
From The Economist print edition

The rewards from investing in politically incorrect companies

REGRETTABLE though it may be, the wages of sin can be well worth having. Vice Fund, a mutual fund started 14 months ago by Mutuals.com, a Dallas investment company, is profiting nicely from what some would consider the wickedest corners of the legitimate economy: alcohol, arms, gambling and tobacco. So far this year, Vice Fund has returned 17.2% to investors, beating both the S&P 500 (15.2%) and the Dow Jones industrial average (13.2%) by a few points.

In fact, all four vice-ridden sectors have outperformed the overall American market during the past five years. “No matter what the economy's state or how interest rates move, people keep drinking, smoking and gambling,” says Dan Ahrens, a portfolio manager at the self-described “socially irresponsible” fund. With President George Bush pursuing a muscular foreign policy, the outlook for defence spending is also bright.

Granted, it is easy to find virtuous funds that put Vice Fund to shame. The Winslow Green Growth Fund, which invests in environmentally sound firms, has returned 80.6% so far this year. The Calvert Group's large-capitalisation fund, another green fund, returned 24.7%.

Yet nice does not always beat naughty. Many “ethical” funds have lagged behind the market. One such is the IPS Millennium fund, which invests in firms friendly to the environment and animal rights, and has eked out just 9.2% this year. The socially responsible funds that have done best are arguably among the riskiest, with big bets on technology and health care, both booming (some say over-excited) sectors. The NASDAQ composite index, which houses many of the firms in these sectors, has climbed by over 70% in the past year. For investors at least, vice makes for a quieter life.

Not that vice is risk-free. In America, tobacco firms are mired in class-action lawsuits, which are one reason for this week's merger of R.J. Reynolds and the American interests of British American Tobacco. Cigarettes are taxed heavily and, increasingly, banned outright in public spaces. Gambling is legal only in certain parts of the United States. But Mr Ahrens is sanguine, pointing to booming demand for cigarettes in the developing world and the growing acceptability of gambling in America. “State lotteries are government-sanctioned gambling. And Las Vegas is now a family destination,” he says. Also, foreign countries are less litigious.

In any case, the Vice Group believes that the companies in its portfolio are not the horned, cloven-hoofed lot that ethical investors think. For example, Anheuser-Busch, the world's largest brewer, which accounts for one of the Vice Group's biggest shareholdings, is not only a maker of booze but also the world's top recycler of aluminium containers. Defence companies were in the vanguard of innovation in hydrogen fuel-cell technology. And virtuous funds do not agree on what is good and what is bad: American Trust's Allegiance Fund avoids health care; yet six of the top ten holdings of the Winslow Green Growth Fund are linked to the industry.

The Vice Fund is tiny, with assets of $6.6m. Institutions have so far steered clear. But it is growing fast. Mr Ahrens says it is taking in new money every week, without brokers' help.

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Financing Germany's Mittelstand

Without credit

Oct 30th 2003 | DRESDEN AND FRANKFURT
From The Economist print edition

Though starved of bank loans, German companies are reluctant to tap alternative sources of capital

BY GERMAN standards, Rolf Heinemann's company is unusual, and not only because of its inspiring history. Mr Heinemann runs Robotron, a Dresden maker of data-warehousing software, and owns 53% of it. In Communist times he was a technician at Robotron's state-owned predecessor, a conglomerate of the same name with 70,000 workers in East Germany. He began on his own in 1990 with DM50,000 (then $30,000) of capital. After more than a decade of careful reinvestment of profits, the modern Robotron has sales of €11m ($11.5m) a year and employs 125.

The healthy state of Robotron's finances is unusual too. It has enough capital, no bank debt to speak of and a partner—Oracle, no less—with a 33% stake. Yet more than 3,000 other German companies are going bust every month. Germany's *Mittelstand*—the small and medium-sized, mainly owner-run firms that make up the bulk of the economy—are badly undercapitalised. Equity makes up just 20% of the liabilities of German middle-sized companies, compared with 35% in France and the Netherlands and 45% in America. Traditionally, the *Mittelstand* has relied on bank loans for finance, and banks are turning off the tap. Lenders are balking at the thinness of borrowers' capital; they are trying to repair the damage done by bad loans to bigger companies; and they are wary of the effects of new rules on bank capital, known as Basel 2, that are being drawn up. Companies in former East Germany, which have had less time to build up capital, are most vulnerable.

What can plug the financial gap? According to Herbert Lohneiss of Siemens Financial Services, the leasing and factoring arm of a big electronics company, banks' neglect of the *Mittelstand* has created opportunities for firms such as his. Their share of day-to-day funding has been rising. But this is operational money, not capital that will help companies grow.

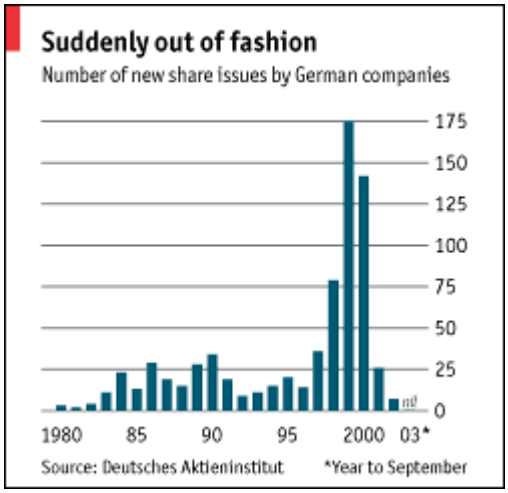
For bigger *Mittelstand* companies, a stockmarket flotation might seem an obvious alternative to bank credit. But Germany's stock exchanges have yet to see a single initial public offering (IPO) this year (see chart). In a recent survey of firms with turnover of at least €35m by the Deutsches Aktieninstitut, which promotes public offerings, only 15 of the 881 companies who replied saw themselves as candidates for an IPO soon, although ten times that number were open to the idea.

In any case, flotations may have little appeal for investors. Top mutual funds and insurers focus on the shares of the 30 big firms in the Dax stockmarket index; smaller investment firms also favour liquid, seasoned shares. Nor, after the ups and downs of the past few years, are German private investors likely to have much appetite for *Mittelstand* shares. In 1999 and 2000, 265 companies were floated on the Neuer Markt, the “growth” segment of the Frankfurt stockmarket, which rocketed and crashed, and is now defunct. Corporate governance was often poor: a survey found that 90% of Neuer Markt companies did not report properly.

There are other options. Private equity funds are prowling Germany, and have been involved in several mergers and restructurings involving biggish companies. However, many *Mittelstand* companies, especially those in family ownership, see outside strategic shareholders as a threat. A compromise is mezzanine finance, which offers investors a yield of perhaps 18%, but is riskier than a secured loan.

Most companies not threatened with bankruptcy will probably wait for profitability to improve and then invest out of their own

resources, or hope for lending conditions to ease. The former may be a while off, despite this week's buoyant Ifo business-confidence index; but there are signs of the latter. Thirteen banks, including KfW, a state-owned development bank, have a plan to securitise billions of euros of bank loans for resale to investors. This would remove the loans from banks' balance sheets, allowing them to lend more to German companies. Big German banks are also refocusing on the *Mittelstand*. Commerzbank, the fourth biggest, pledged recently to lend *euro*1.8 billion to *Mittelstand* companies. However, Nicholas Teller, the board member in charge of corporate banking, says there has been little demand so far from eligible companies.



Meanwhile, companies are learning to make themselves more attractive to lenders. Greater use of leasing and factoring is reducing their ratios of bank debt to equity. Even smaller firms are beginning to see the importance of a respectable credit standing. Credit ratings are no longer the concern of only the 100 or so German companies covered by leading rating agencies. Under Basel 2, every bank will have to rate every customer.

Commerzbank, for instance, has a service called “rating coach” to help clients work on their credit rating. Indeed, the *Mittelstand*'s main preoccupation now seems to be getting good grades from its creditors, not displaying the business flair that made it famous. Until companies' finances are repaired, so it will remain.

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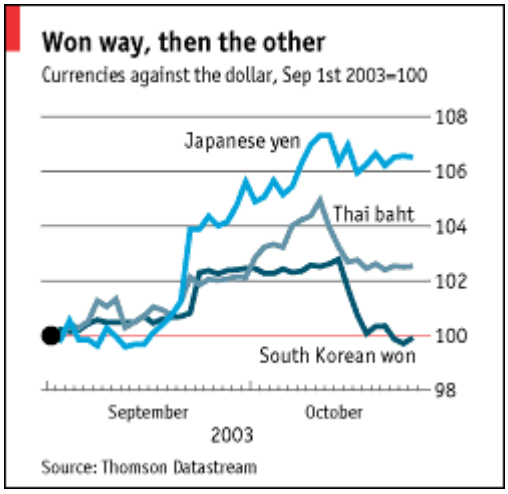
Asian currencies and the dollar

Stuck in the middle

Oct 30th 2003
From The Economist print edition

The wobbling won and baht



WHEN the yen-dollar exchange rate goes through one of its occasional gyrations, smaller Asian currencies wobble too. Since the G7 rich countries called for greater exchange-rate flexibility in September, the yen and the dollar have parted company, ending more than a year of trading between ¥115 and ¥125 to the dollar. At first, the South Korean won and the Thai baht followed the yen up. Now both, coaxed by their monetary authorities, have veered closer to the dollar.

Six years ago the baht, which had been pegged to the dollar, collapsed under speculative attack. Now, speculative inflows of capital from "big, foreign institutions" have pushed the baht up too far, too fast, according to the Thai authorities. On September 30th, for the first time in over three years, a dollar cost less than 40 baht. On October 14th the Bank of Thailand took steps to inoculate the financial system against unwanted capital inflows. It ruled that foreigners could hold no more than 300m baht in their current accounts and would receive no interest on those sums. Only deposits on at least six months' notice would earn interest. Foreign capital has ebbed slowly out of the country and the baht has lost some of its vigour.

The rise of the won was snuffed out more quickly. Shortly after the G7 communiqué, the South Korean currency reached its highest against the dollar for nearly three years, despite a faltering economy. Alarmed, Kim Jin-pyo, South Korea's finance minister, gave warning of "excessive fluctuations triggered by speculative forces". The government, he said, was prepared to undertake "smoothing operations" to stabilise the currency markets. The won has since returned to its summer lows against the dollar.

Why should either country worry so much about tracking the dollar? Unlike Canada, most of whose trade is with the United States (see article), Thailand and South Korea sell only about a fifth of their exports to America. But if America is not the dominant economic power in the region, the dollar is nonetheless the hegemonic currency. East Asia's trading nations price most of their goods in dollars, even when they are selling to each other. South Korea, for example, invoices over 80% of its exports in dollars. So when the dollar falls against the won, South Korea's exporters earn less.

One way to fix this problem is to peg your currency to the greenback, as Malaysia, Hong Kong and China do. South Korea and Thailand cannot afford to lose competitiveness against their neighbours, but they nonetheless abjure the hard pegs that got them into trouble in the past. Research by Ronald McKinnon of Stanford University and Gunther Schnabl of Tübingen University* suggests that they maintain "soft pegs" to the dollar, stabilising exchange rates daily or weekly.

The authors contend that such small, open economies, bobbing on flows of foreign capital, want a link to the dollar to help stabilise prices at home and dampen the currency risk of borrowing abroad. No wonder that the Thais and South Koreans do not want to see that link severed.

* "The East Asian Dollar Standard, Fear of Floating, and Original Sin": www.stanford.edu/~mckinnon/papers.htm

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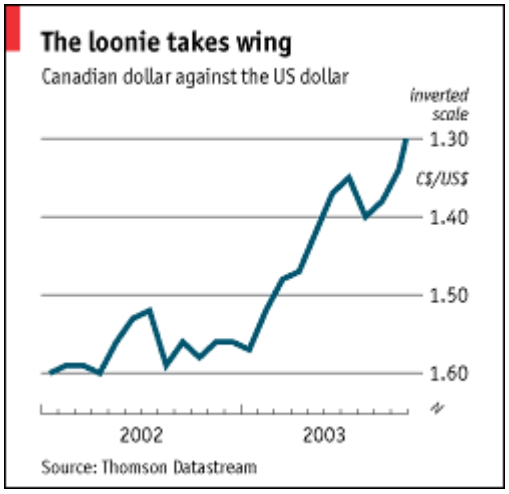
The Canadian dollar

High-flying bird

Oct 30th 2003 | TORONTO
From The Economist print edition

The pros and cons of Canada's strong currency



IN THE 15 years since America and Canada signed their first free-trade deal, the world's biggest two-way trading relationship has trebled in scale. Canada's giant neighbour now buys 84% of its exports—equivalent to one-fifth of GDP—and supplies 72% of its imports. Little wonder that a recent surge in the Canadian dollar has become a hot issue north of the border.

The loonie, named after the loon (an aquatic bird known outside North America as the diver) on the one-dollar coin, is not the only currency that has taken flight against the American dollar. However, its rise—from an all-time low of C$1.61 to the American dollar to a ten-year high of C$1.30—reflects more than the greenback's weakness. In contrast to the frail state of America's finances, Canada has had six years of budget surplus and is set for a seventh. A whiff of inflation scared the Bank of Canada into raising its key interest rate five times in a year, beginning in April 2002. Although the rate has since fallen, it remains, at 2.75%, well above America's Fed funds rate, which was kept at 1% this week.

Now the central bank's governor, David Dodge, is under pressure to cut rates further. Inflation, having peaked at 4.6% in February, fell to 2.2% in September and is no longer a threat. Several of Canada's biggest companies, such as Alcan (aluminium and packaging) and Abitibi-Consolidated (forest products), have blamed the loonie for pecking away their third-quarter profits. Manufacturers have already cut 80,000 jobs this year. Trade unions have given warning of more to follow if Canadian firms lose their edge in America.

Mr Dodge is in no hurry, believing that Canadian exporters will gain more as the American economy accelerates than they will lose from a strong currency. The central bank predicts that Canada's growth rate will rise from about 2% this year to 3.25% in 2004. It even thinks that the economy may have no spare capacity left by early 2005.

Some are quietly pointing out the benefits of a strong currency. Cheaper machinery and technology imports could help manufacturers close the nagging productivity gap with their American rivals: so far they have bridged it only with a weak currency. And the loonie has flown higher, reaching C$1.12 in the early 1990s. Reid Farrell of CIBC World Markets in Toronto thinks it will take two or three interest rate cuts to stop the loonie this time. Meanwhile, retired Canadians packing for a winter in Florida or Arizona aren't complaining.

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Economics focus

Power to the pawns

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For excellence in public services, should societies rely on altruism or self-interest?

EGALITARIANS are instinctively suspicious of market forces. Markets breed inequality, they believe. In ordinary markets, that may well be true. But this fact should not blind egalitarians to opportunities for using "quasi-markets", which combine market forces and public money, in ways designed to promote equality. So argues Julian Le Grand of the London School of Economics in a fascinating new book.

"Motivation, Agency and Public Policy: Of Knights and Knaves, Pawns and Queens"* examines the theory and practice of "quasi-markets" for public services. The book is short, accessible and profound. Drawing on theory, case studies and surveys of the literature, Mr Le Grand argues that the left is missing a trick. Market forces, he says, can often serve its goals better than the methods socialists and social democrats generally favour.

The left's distaste for mixing markets and public services springs partly from two deep-rooted ideas. One is that governments and their officials, when acting as providers, do what they think is good for society, not what they think is good for themselves: as Mr Le Grand puts it, the left assumes that providers are "knights" not "knaves". Second, the left sees recipients of public services as having no scope for action on their own initiative. Citizens act as they do because of the economic environment into which society has put them. As consumers of public services, they are passive beneficiaries: "pawns" not "queens".

Mr Le Grand argues that these beliefs are not only wrong but also anti-egalitarian. He shares the left's concern about the inequalities that arise in ordinary markets, but this issue is not to the fore in the quasi-markets he concentrates on. Governments often pay for universal access to public services such as schools. The question in such cases is whether those public services—which may well matter more to the poor, who lack alternatives, than to the rich—are any good. The point is that properly designed quasi-markets improve quality and value for money.

Mr Le Grand does not arrive at this conclusion by agreeing with those economists and right-wingers who see public-service providers and recipients alike as one-dimensional self-interested "maximisers". Policy needs to recognise, he argues, that public-service providers may be motivated simultaneously by altruism and by self-interest. And though some recipients may regard themselves as helpless, policy should try to increase their power over providers—to turn pawns into queens—both because that would promote efficiency and because, from an egalitarian point of view, it is desirable in itself.

The idea that altruism and self-interest are both at work in the supply of public services has interesting theoretical implications, which Mr Le Grand teases out. For instance, how does supply react to price? An altruist will supply some services even if the payment received is zero. A small payment, if it were seen as recognition of the provider's sacrifice, might then encourage additional supply. But increase the payment further and you could discourage supply, by tainting the event as a market transaction and reducing the altruist's intrinsic reward. If the payment were then increased further still, the supply of the service might start to rise again, in the standard economic way, as the positive power of self-interest overwhelmed the diminishing power of altruism. In short, a mixture of the two motives can produce a wobbly supply curve.

Mr Le Grand draws lessons for policy from this and from other theoretical explorations. One rule of thumb is that incentives in quasi-markets need to be framed, as far as possible, so that they appeal to both knightly and knavish instincts, rather than concentrating on one or the other.

The book's discussion of competition among schools shows what this might mean. The key supply-side

decision-maker is the head teacher. Heads may have both a knightly and a knavish interest in the financial well-being of their schools: the first because financial strength allows them to do a good job for their pupils, the second because financial incompetence may mean the sack. It need not matter which interest is uppermost. In either case, heads have reason to respond to market pressures that affect their finances. Parents armed with choice and information—better still, with vouchers too—can supply the market pressure, appropriately tuned to educational performance. In practice, as Mr Le Grand's review of the evidence shows, it seems to work.

So, he argues, might a range of other policies, likewise framed with quasi-markets in mind: greater use of tax hypothecation (earmarking), for instance, or “demogrants” (publicly financed grants of capital to young people) of the kind that Britain's Labour government has announced.

Moral uplift

Sceptics will nonetheless feel that there is something morally diminishing about self-interest—that such a motive erodes trust and the public-service ethos. It follows from Mr Le Grand's arguments that this can sometimes be true, but also that it need not be. With care, policies that recognise self-interest can reinforce the power of altruism (as when a small payment calls forth an increase in supply); and it is desirable in itself to attack that part of the public-service ethos that treats recipients as mere pawns.

The book ends by drawing attention to the classical-liberal tradition that makes an even larger claim. Markets can be not only empowering, efficient and equitable; not only moral in the sense that they can reinforce altruism; but they may also civilise people's behaviour towards one another. As Montesquieu put it: “commerce...polishes and softens barbarian ways.” Unlikely, you say? Read Mr Le Grand's splendid book, which adduces some intriguing modern evidence in support of this idea too.

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Hepatitis C

Needles and haystacks

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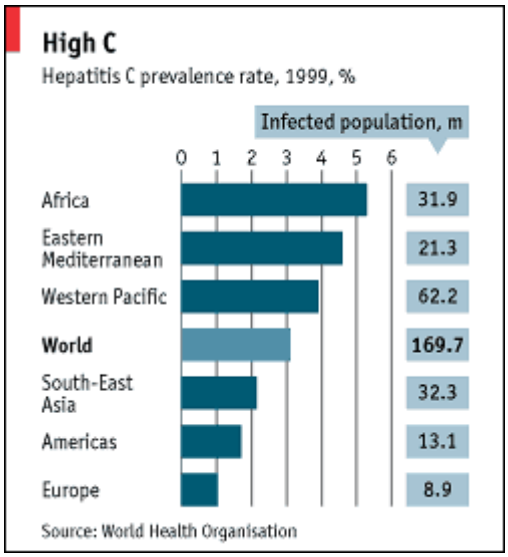
Corbis

Hepatitis C is a dangerous disease. This week delivered mixed news on novel treatments for it

THE world is full of nasty viruses, but the one that causes hepatitis C is particularly tricky. Medical science recognised decades ago that not all cases of hepatitis were caused by the two viruses (A and B) that had already been identified. But hepatitis C virus (HCV), which is spread mainly by contaminated blood from, for example, shared syringes, was not isolated and identified until 1989.

In 1999, the most recent year for which global figures are available, HCV was believed to have infected some 170m people (see chart). Another 3m join their ranks every year. Fewer than a fifth of those who catch the virus shake it off. In most cases it settles down to form a chronic infection of the liver which, over the course of several decades, can lead to severe forms of liver damage such as cirrhosis and fibrosis, as well as cancer. According to the World Health Organisation (WHO), hepatitis C kills around 500,000 people a year. It is less deadly than AIDS, which claims more than 3m lives annually. However, its higher prevalence (at the moment, some 42m people are infected with HIV, the virus that causes AIDS), longer incubation period, and the absence of effective drugs, mean that it is potentially a more lethal epidemic.



News of a way to tackle HCV would therefore be welcome. Hence the enthusiastic headlines which greeted a report published by researchers from Boehringer Ingelheim, a German drug company, in this week's online issue of *Nature*, and also presented at the annual meeting of the American Association for the Study of Liver Diseases, in Boston. Daniel Lamarre and his colleagues have shown that a molecule code-named BILN2061 can block the activity, both in the test tube and in experimental animals, of an HCV protein called NS3 protease, without which the virus cannot go about its business. More significantly, the drug also seems to work in people. Patients infected with HCV who were given four doses of BILN2061 saw their viral burden plummet to almost undetectable levels within two days, although there was a slow rebound over the weeks after the last dose was given.

On the face of it, this is a particularly significant success, since these patients were infected with a strain

of HCV called genotype I, which is common in Europe and America, but which the existing therapy is unable to treat well. That therapy involves two drugs. One is a protein called alpha-interferon which, as the name suggests, interferes with the virus directly, as well as stimulating the body's immune system to attack the invader. The other is ribavirin, which gums up HCV's ability to replicate. However, only 40% of those infected with genotype I respond to this cocktail, for reasons researchers have yet to come to understand fully.

The bad news is that, whereas BILN2061 looked safe in early animal testing and clinical trials, further experiments in monkeys have shown that, at doses many times higher than those given to patients, the drug can throw the heart seriously out of whack. That result need not, in turn, kill BILN2061. After all, it involves a significant overdose. But it does mean that Boehringer Ingelheim has halted all patient testing, and has returned to the drawing board to work out why BILN2061 has this effect.

C-ing the future

This story illustrates just how difficult it is to come up with effective new treatments for HCV. Matters are complicated by the fact that the virus is hard to grow in the laboratory and, until recently, the only animal “model” of the human disease was the chimpanzee, a species that it is impractical (and many would argue immoral) to use for industrial-scale research. Over the past few years, however, new cell-culture systems and mouse models have opened the way to further drug development, the fruits of which were also presented at the meeting in Boston.

NS3 is a popular target with research groups other than Boehringer Ingelheim's. Scientists at the Schering-Plough Research Institute, in New Jersey, for example, are developing their own inhibitor, and have just begun clinical trials with it. Meanwhile, Vertex Pharmaceuticals, a biotechnology company based in Cambridge, Massachusetts, has another anti-NS3 drug in the works. This substance, called VX-950, has been shown to block its target, at least in mice. The company hopes to test the drug in people next year. As John Thomson, the vice-president of research at Vertex, points out, just because Boehringer Ingelheim's compound has run into difficulties does not automatically dim the prospects of other protease inhibitors.

Meanwhile, others are attacking from different angles. Isis Pharmaceuticals, a biotech company based in Carlsbad, California, has seen encouraging results in patients given its “antisense” compound, which binds to the virus's genetic material and stops it reproducing. Other drugs highlighted in Boston tackle HCV's outer coat in an attempt to stop it binding to liver cells in the first stage of infection.

Among these is a compound from XTL Pharmaceuticals, based in Rehovot, Israel, which has just been tested on 25 chronic sufferers. The drug is a monoclonal antibody designed to lock on to, and block, one of HCV's outer features, called the E2 protein, which it needs to attach to its target cells. Roughly three-quarters of patients who received the compound saw a significant drop in their viral levels, with no serious side-effects. As a result, XTL is testing the drug in HCV-related liver-transplant patients, in whom it is hoped that it will prevent the infection of the transplanted organ by hidden reservoirs of the virus. The firm hopes to have the results of the trials before the end of next year.

In practice, it is unlikely that any one medicine will be enough to beat HCV. Just as with HIV—and, indeed, the existing interferon/ribavirin approach—a combination of drugs, attacking the problem from different angles, will probably be the most potent weapon. And as with AIDS, success in drugmaking will bring further difficulties. As Daniel Lavanchy, an infectious-disease specialist at the WHO, points out, existing treatments already cost $20,000, which puts them beyond the reach of most of the world's infected in developing countries. How much more will shiny new drugs, and the medical care needed to deliver them, add to the bill? While researchers struggle to find better ways to combat HCV, politicians will have an equally tough task—how to find the money to pay for them when they arrive.

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Genetics

A blistering challenge

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Genetics gets more complicated

THE official version of genetics is fairly straightforward. Genes are encoded in a molecule called DNA. This molecule is a double-stranded helix made from four different types of sub-molecule. These types are interchangeable, and can thus appear in any order in a strand. Reading the sub-molecules in groups of three (essentially, genetic “words”) yields a message. The machinery of a cell can translate this message into a protein. And proteins are the molecules that do most of the work in a cell. Hence genes control cells. Hence, also, changing the order of the sub-molecules means that the message gets changed, and with it the protein.

Such changes are called mutations. Not all are detrimental. Some have no real effect, and are known as silent mutations. This is either because they cause no change in the composition of the protein that the gene encodes (some apparently different genetic words actually have the same meaning to the protein-making apparatus), or because the change they make has no effect on the protein's function. But if an effect is there, it will always be there unless it is masked by a second, undamaged copy of the gene in question. (There are two versions of most genes in an individual, one inherited from each parent.) That, at least, is the received wisdom. However, a study by Greg Gibson, Ian Dworkin and their colleagues at North Carolina State University, in Raleigh, suggests things may be more complicated and subtle than that. Working with the geneticists' favourite animal, the fruit fly *Drosophila*, Dr Gibson has pinpointed a series of so-called cryptic variations that have no effect on a protein's structure, but can nevertheless, if the circumstances are right, have a significant effect on the individual they belong to.

One of the genes in *Drosophila* is called Egfr. When this goes wrong, the wonky protein that results causes a fly's eyes to blister up, because too many photoreceptor cells are produced in them. In this case the blistering happens even if the other copy of the gene is healthy. In other words, a healthy gene cannot mask the blistering. That much is familiar to fly geneticists. However, the degree of blistering varies. Such variability could be due to environmental factors, but Dr Gibson suspected it might actually be due to minor variations in the healthy copy of the Egfr gene.

So much is known about fly genetics that a lot of these minor variations have already been identified, and lines of flies with particular versions of them bred routinely. The versions in question are called single-nucleotide polymorphisms (SNPs), because they involve substitutions of individual sub-molecules (nucleotides, as they are known technically) in the helix. In healthy flies, these substitutions have no perceptible effect. But when Dr Dworkin crossbred a range of fly lines each carrying a different silent SNP in the Egfr gene, with flies from a line that had a damaged Egfr gene, he found that the amount of blistering in the offspring varied significantly. More to the point, the variation was between lines, rather than within them, showing that the SNPs were somehow modifying the effect of the Egfr protein without modifying the protein itself.

How this happens is unclear. Probably, the SNPs are changing the amount of Egfr protein produced, by fine-tuning the way the gene's message is broadcast to the cell's protein-making apparatus. But whatever its cause, it is a significant finding. A number of human diseases caused by damaged genes, such as cystic fibrosis and a range of cancers, have a similarly variable expression. It has long been suspected that in these cases, too, some sort of “cryptic” variation is to blame. But, before Dr Gibson's work, the existence of such variation was hypothetical. Now that the phenomenon has been exposed, it should be possible to find out how it works. That, in turn, may suggest ways of ameliorating these diseases by “turning down” some of the biochemical switches involved. And regardless of the practical consequences, Dr Gibson's work has shown that even genetic determinism is not the simple process that some of its proponents would have you believe. That alone is a lesson worth learning.

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Deleting graffiti

The writing is off the wall

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From The Economist print edition

Researchers in Mexico have invented a new type of anti-graffiti paint

THE row over who will provide the anti-graffiti technology for Berlin's Holocaust memorial (see article) highlights a widespread and ancient problem. Even the Romans had to put up with slogans scratched on their fine new buildings by ungrateful locals. Ever since then, people have been struggling to deal with unofficial decorators who wish to express their opinions, or merely to catch the public eye.

Most existing anti-graffiti coatings work only a few times before they must be repainted; a nuisance when a newly cleaned surface gets redaubed almost immediately. But now, Víctor Castaño and his colleagues at the Autonomous National University of Mexico, in Santiago de Querétaro, believe they have a solution—a paint to which the daubings will not stick.

The group's research work has already led to one graffiti-proof coating, called Deletum 3000. But this is inconvenient to use as it has to be mixed just prior to use. The new product, Deletum 5000, which will be released in January, is a ready-mixed, and more effective, version, as Dr Castaño explained to the Nanotechnology in Crime Prevention and Detection conference held in London on October 28th.

Deletum 5000's special ingredient is silica. It is loaded with particles of the stuff that are but a few nanometres (billionths of a metre) across. These particles have had both oil-repellent and water-repellent molecules attached to their surfaces. Both are necessary, since the materials used by graffiti artists may be oil-based or water based. However, if merely mixed together, the two would end up repelling each other, and thus separating. By attaching them to the silica, this mutual loathing can be overcome and, as the paint dries, the changes that take place force the oil-and-water-proofing to the surface. The result is that most agents used by graffiti artists will not stick to that surface—and what does stick can be washed or brushed off easily.

Deletum 5000 can be painted on to concrete, brick, metal, plastic and wood. It is able to withstand repeated attacks. And it will last for ten years—twice as long as its predecessor. Also, because it can be applied as a very thin coating, it can be used to paint the surfaces of historic buildings without ruining the texture of the stone.

Protecting buildings may just be the start. A coating to which practically nothing adheres could provide maintenance-free surfaces in anything from restaurant kitchens to operating theatres. It could also get up-close and personal. Using his wife as a guinea pig, Dr Castaño has been testing a version of Deletum as a coating for nail varnish. Although, happily, it prevented the chipping that plagues fashion-conscious washers-up around the world, it was rather too permanent. Mrs Castaño wanted to change the colour of her fingernails more frequently than Deletum would allow. To placate her, Dr Castaño has now developed a solvent.

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Mating preferences

Come into my beauty parlour

Oct 30th 2003
From The Economist print edition

Female spiders are picky lovers

FREUD would have loved it: a tale of sexual cannibalism brought on by girls' youthful experience of older men. The only twist is that it is in spiders.

Eileen Hebets, of Cornell University in New York state, studies wolf spiders. Like the females of many other species of arachnid, female wolf spiders are as prone to eat a passing male as to mate with him. Indeed, in some species, the former generally follows the latter unless the male makes a speedy getaway. In wolf spiders, though, the girls make their preferences known before coitus, with extreme prejudice to any suitor to whom they take a dislike. What Dr Hebets wondered was exactly how they make their choice.

She reasoned that it might have something to do with looks—those, after all, are a criterion common to many species. Male wolf spiders do vary in appearance, particularly in the colour of their forelegs. Since the forelegs are used in the elaborate display by which a wolf spider indicates that he is a potential mate rather than (he hopes) a potential meal, Dr Hebets hypothesised that if any variation in appearance was likely to be important, it would be in the colour of a well-turned leg.

However, she carried the thought one stage further, wondering if a preference for a black versus a brown leg, assuming it existed, might be instilled in a young and impressionable female by reference to the sort of males she had met before she was, shall we say, truly interested in such matters herself. To test this idea, Dr Hebets turned to her make-up bag and brought out two shades of nail varnish (NailSlicks, midnight metal and bronze ice, as her paper in the *Proceedings of the National Academy of Sciences* quite properly describes in its materials and methods section, in case any other researcher wishes to replicate the experiment). She used these to alter the fashion sense of a clutch of male spiders.

In total, 81 young female spiders were exposed either to a number of males whose legs had been painted black, or to a number whose legs had been painted brown. When these females had matured, they were put, one at a time, into a box with a painted male, who may or may not have matched the sort of male they were used to.

The result was clear-cut. Being of a familiar type did not guarantee a male success and survival, but it brought pretty good odds with it. By contrast, being of an unfamiliar type resulted, in almost all cases, in a male becoming lunch.

As a control, Dr Hebets kept another batch of females away from contact with males until they were mature. These females did not seem to care about the colour of their suitors' legs. In spiders as in people, it seems, mating preferences are decided before sexual maturity.

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New fiction

Words of love and war

Oct 30th 2003
From The Economist print edition

Shirley Hazzard's new book is the most interesting novel published this year

IN peacetime, the personal looms to the foreground, and history recedes; in wartime, the personal either constitutes history, or is subsumed by it. Thus the literary romance may be especially suited to aftermath.

Aptly then, Shirley Hazzard's “The Great Fire” begins in occupied Japan in 1947. Her protagonist, Aldred Leith, a decorated British major, has been sent by the army to report on the condition of Hiroshima. When pressed by his minder to explain the strategy behind dropping the atomic bomb, Leith submits: “By then, neither side was interested in sparing anyone, even themselves.”

The Great Fire
By Shirley Hazzard

Farrar, Straus & Giroux; 288 pages; $24. Virago; £15.99

Buy it at
Amazon.com
Amazon.co.uk

Early in his posting in the nearby town of Kure, Leith is captivated by the precocious daughter of a widely disliked brigadier. Helen is 17, Leith in his early thirties, and her parents strenuously oppose his courtship. Helen's beloved older brother is dying of a rare disorder, and her unpleasant parents have dumped the boy's daily care entirely on their daughter. At length, her parents wrench Helen from her would-be lover and her brother both, shipping their son to California to die alone, and whisking Helen to New Zealand, a world away from her mature admirer.

As sweetly as Ms Hazzard evokes the thwarted romance, it is hard for her backdrop not to steal the show. The time is marked by unease. Peace is nominal. The civil war is roiling in China. A confrontation between America and the Soviet Union threatens yet a third world war that these exhausted characters haven't the energy to contemplate. The conquerors in Japan are tainted by guilt over the bomb and by contempt for their charges. In passing, Helen's mother despairs from on high of “their awful gardens”. The gardens would not be all that this shrew notices.

Indeed, it is the survivors' struggle to triumph over backdrop—to force the personal to the fore again, and history aft—that constitutes Ms Hazzard's subject matter: “Having expected, repeatedly, to die from the great fires into which his times had pitched him, [Leith] had recovered a great desire to live completely; by which he meant, with her.” Love's redemption may be an age-old theme, but it is no mean feat to recover one's concern for simple individual happiness after so much collective suffering.

For a novel 20 years in the writing—Ms Hazzard's last, “The Transit of Venus”, won the National Book Critics' Circle Award in 1981—“The Great Fire” has a surprising quietness. Yet this is the hush you hear after a shoe has dropped, and not the misleading tranquillity that precedes disaster. There is a ring in the air. Moreover, the novel's pervasive sense of composure proceeds from its sentences, which are meticulous and thankfully free of creative-writing-school overload. Many are the books noisy with chatter and frou-frou, as writers take wild scatter-shots at their subjects in the hope that a few lines will hit the target. Ms Hazzard's prose is restful in its exactitude; every sentence strikes its mark.

If her text is never ostentatious, Ms Hazzard has a knack for deft, unexpected word choice. Leith dreads the arrival in Helen of “a charmless good sense”, or in Japan “the chronic anticlimax of nightfall”. A military minion is “hysterical with importance”.

Her descriptive powers are as muscular when depicting characters as they are with this uniquely shell-shocked era. Of an elderly woman: “Beauty, long since drained of erotic appeal, had remained a habit.” Of a couple: “The shared error of their marriage had grown to be a bond.”

Hewing to a classical tradition, Ms Hazzard's dialogue is more articulate than strict realism would dictate. Yet to put so much wisdom into the mouths of her characters constitutes a form of authorial generosity. Remarks a woman in London, “You'll find they keep saying, ‘Britain is finished'—and with such complacency, as if it were a solution.” Or Leith will opine, “*Things*, Helen, the sad silly evidence of things. We're told that possessions are ephemeral, yet my God how they outlast us—the clock on the bedside table, the cough drops, the diary with appointments for that very day.”

Though sporting an unusually large cast, “The Great Fire” never feels crowded. While hopscotching between Japan, Hong Kong, Britain and New Zealand, the novel maintains a remarkable sense of geographical unity—as if, after a world war of such dimension, anywhere on the planet begins to feel, depressingly, like the same place. Given the richness of these several settings and the nuanced nature of these many characters, lesser authors might have been tempted to write a doorstop. If nothing else, perhaps Ms Hazzard deserves America's National Book Award, for which “The Great Fire” has recently been short-listed, for achieving the effect of one of those pretentious, capital-B big books in fewer than 300 humble, exquisitely crafted pages.

The Great Fire.
By Shirley Hazzard.
Farrar, Straus & Giroux; 288 pages; $24. Virago; £15.99

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About sponsorship

Ronald Reagan

California's other big surprise

Oct 30th 2003
From The Economist print edition

RONALD REAGAN was the most enigmatic American president in living memory. For the right he is the embodiment of Norman Rockwell America. Visit his boyhood home in Dixon, Illinois, and you will see a shrine to small-town verities. The table is set for family dinner; just down the road are the high school where young Ronald absorbed his all-American values and the church where he taught Sunday school.

Yet Ronald Reagan's father, Jack, was an alcoholic who was sometimes so drunk when he came home that he collapsed on the porch. The Reagans lived in a succession of different houses in Illinois over several years. The young Reagan abandoned small-town America as quickly as he could, for a career in "the new economy", first as a radio presenter in Des Moines and then as a B-movie actor in Hollywood (where he quickly got married, divorced and then re-married). As governor of California, Mr Reagan signed the most liberal abortion law in the country; as president, the champion of the Christian Coalition seldom went to church.

Governor Reagan: His Rise to Power
By Lou Cannon

PublicAffairs; 512 pages; $30

Buy it at
Amazon.com
Amazon.co.uk

If the conservative vision of Mr Reagan is whitewash, the liberal version is hogwash. Liberals dismiss the fortieth president as a genial buffoon who simply read lines written for him by the Moral Majority and the military-industrial complex. "Mr Norm", as one magazine dubbed him, certainly preferred simple truths to sophisticated doubts. His lack of focus on the day-to-day details of government surprised even his most ardent fans.

Yet Mr Reagan was anything but a buffoon. A bookish boy who learned early on how to play the extrovert, he was happiest in his own company. Nancy Reagan noted that "he often seems remote, and he doesn't let anybody get too close." When Lee Edwards, one of his earliest biographers, visited him in Sacramento he was astonished to find his bookshelves lined with well-thumbed books by Friedrich von Hayek and Ludwig von Mises. As president, he infuriated the hard-liners around him with his insistence on "doing business" with Mikhail Gorbachev.

Lou Cannon is Mr Reagan's finest biographer. He covered the Gipper as a reporter for 36 years, first in California and then in Washington, DC. He has a reporter's eye for detail, a natural stylist's gift for phrasemaking and a novelist's sense of pace.

In "President Reagan: The Role of a Lifetime" (1991) he provided a brilliant portrait of Mr Reagan's presidential years, showing how the Gipper used his cinematic skills to shape his presidency. With "Governor Reagan" he has produced a prequel. He traces Mr Reagan's conversion from a New- Deal Democrat ("a near-hopeless haemophilic liberal" as Mr Reagan himself put it) into an ideological conservative. But he shows that Governor Reagan was also a pragmatist who raised taxes and doffed his hat to California's burgeoning environmental movement.

To read this book is to see myths dissolved and reality reconstructed in all its complexity. George Bush should hope that there is somebody as talented and fair-minded as Lou Cannon working in today's Washington press corps.

Governor Reagan: His Rise to Power.
By Lou Cannon.
PublicAffairs; 512 pages; $30

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British political biography

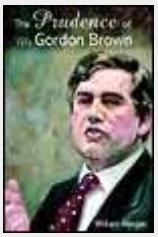
The purpose of prudence

Oct 30th 2003
From The Economist print edition

ONE of Gordon Brown's favourite jokes, according to William Keegan, is that there are two kinds of chancellor: those that fail, and those that get out in time. This is typical of Britain's chancellor of the exchequer in two ways. He is a witty man, despite his dour television appearances to the contrary; and he rarely thinks his jokes apply to himself. For it will be a big surprise, not least to him, if Mr Brown does not remain at the helm of the Treasury for several more years before, as he fervently hopes, succeeding Tony Blair as prime minister.

Mr Keegan is one of Britain's most experienced and knowledgeable economic columnists, and he deploys that knowledge well in telling the story of Mr Brown's rise to power, of how his economic and political thinking developed, and of his six years (so far) at the Treasury. At the heart of that thinking, and of those six years as, arguably, the government's chief executive to Mr Blair's chairman, lies one word: prudence. It is not a sexy word, which is why his TV reputation is so dour. But he has nevertheless made it his totem, as part of the endlessly repeated slogan, “prudence with a purpose”.

The Prudence of Mr Gordon Brown
By William Keegan



Wiley; 368 pages; $30 and £18.99

Buy it at
Amazon.com
Amazon.co.uk

The prudence was, for a Labour chancellor, remarkable. Within a week of entering office in 1997 he shocked everyone, and delighted *The Economist*, by handing control of interest rates over to the Bank of England and giving it independence. During his first three years in office he also surprised everyone, and angered his own party, by restraining public spending more tightly even than his Conservative predecessor had planned to do. His aim was to demolish Labour's reputation as spendthrift and reckless, and to give the British economy a more stable macroeconomic framework before then getting on to “the purpose”: pouring money into public services, especially health, education and transport.

He didn't alienate his Labour supporters altogether, for he combined that prudence with enough tax handouts to favour the poor and thus to satisfy the party's thirst for redistribution. He remains a lot more popular inside the party than Mr Blair, and not only because of the Iraq war. Nevertheless, his strategy contains within it a considerable threat to his ambition to succeed the man who is at once his long-time friend, closest partner in government and bitter rival.

The reason is as simple as Mr Brown's slogan. If Mr Blair's star fades, it is likeliest to be because the effort to improve public services chiefly through pouring more money in has itself failed, either because more needs to be done or because it was done too late. And who was the architect of that effort, but the determined, highly intellectual Scotsman next door at No 11 Downing Street? Mr Brown skilfully positioned himself as a loyal but dissociated colleague on the issue of the Iraq war; on membership for sterling in the euro, he is plainly more reluctant—and thus more in line with public opinion—than is Mr Blair. But on the biggest issue of all, public services, their fates are intertwined. The prudence has been a great success. The jury is still out on the purpose.

The Prudence of Mr Gordon Brown.
By William Keegan.
Wiley; 368 pages; $30 and £18.99

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Reuters

It didn't take much

Oct 30th 2003
From The Economist print edition

THE frightening thing about the decline of Reuters is that its bosses did not do anything terribly wrong. Certainly, they paid insufficient attention to a new company called Bloomberg and they made a few decisions which with hindsight turned out to be wrong. It could have happened to any company, which is what gives an everyman quality to the tale of how Reuters lost £20 billion of market value in a little over three years.

Paul Julius Reuter's first triumph was to devise a clever way of closing the gap in the telegraph system between Brussels and Aachen, a city on Germany's western border. In 1849 he invested in carrier pigeons which could carry news on their legs in less than half the time of a train. Next came a famous scoop when Reuters sent the first news to London of the relief of British troops besieged at Mafeking during the Boer war. It was reporting that created Reuters's reputation. But something far less glamorous made its fortune: selling prices and the ability to trade them on a screen to merchant banks. In the 1970s and 1980s, Reuters profited from growth in foreign-exchange and money-market trading with a new product called Monitor.

Breaking News: How the Wheels Came Off at Reuters
By Brian Mooney and Barry Simpson

Capstone; 230 pages; $19.99 and £12.99

Buy it at
Amazon.com
Amazon.co.uk

Brian Mooney and Barry Simpson, both former Reuters journalists, are at their best describing the quirks and failures of the people who led the company from triumph into decline. David Ure, a top executive, used to scratch incessantly in meetings. Philip Green, a recent chief operating officer, would ask colleagues how often they went to church. But it is the former chief executive, the dictatorial and other worldly Peter Job, who gets most of the blame for Reuters's troubles.

Michael Bloomberg, founder of Reuters's competitor, came from Salomon Brothers, and understood what traders wanted better than journalists. His product has always been easier to use. Reuters has struggled to rival the depth of historic data contained in a Bloomberg machine. To cap it all, Reuters had to endure an FBI investigation into whether it had stolen competitive information from its new rival. The case was dropped in 1999, but it left morale badly damaged.

Events easily outstrip a book about a newswire, and Messrs Mooney and Simpson missed out on Reuters's recent sacking of Stephen Jukes, its global head of news, and several other top editorial staff. Until then, the editorial side of the company seemed protected from the restructuring and cuts that had been imposed on the rest of the business. The book has little to say about the future; from Bloomberg, Reuters has finally learned to put its customers first when designing new products, and that could eventually bring recovery.

For readers familiar with recent American corporate misdeeds, Reuters's tale of gradual British decline may seem tame. There is a brief, glorious flash of Enron in the account of the Reuters man who overdosed on cocaine and alcohol in a New York hotel room while wearing women's underwear. But however arrogant and foolish Mr Job and his senior colleagues were, they never went as far as looting their company and faking the numbers.

Breaking News: How the Wheels Came Off at Reuters.
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Literary biography

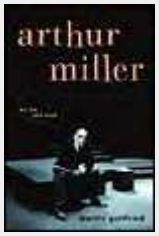
The lion king

Oct 30th 2003
From The Economist print edition

OVER the past 60 years, Arthur Miller has written several dozen plays, novels, short stories, essays and Hollywood screenplays. For all his hard work, though, he remains famous for three things: his 1949 masterpiece, “Death of a Salesman”, which won a Pulitzer prize; his refusal to rat on his Communist friends when called before the House Un-American Activities Committee; and his marriage to Marilyn Monroe.

That union had a baleful influence on Mr Miller's career. Though it was glaringly obvious to everyone else, he claimed not to see a resemblance between Marilyn and Maggie in his play, “After the Fall”, which was first performed in 1964, two years after her death. True, the hostility it unleashed against Mr Miller's work has mellowed in recent years to an even-tempered indifference, but it has been four decades since the playwright had a big critical or commercial hit in America. He no longer feels vilified, merely “invisible in my own land”.

Arthur Miller: His Life and Work
By Martin Gottfried



Da Capo Press; 496 pages; $30. Faber and Faber; £25

Buy it at
Amazon.com
Amazon.co.uk

Martin Gottfried, a theatre critic for the *New York Post*, has written a conventional, meat-and-potatoes biography, slightly hampered by Mr Miller's refusal to talk to him about his personal life. Even so, Mr Gottfried's book seems weirdly incurious. He runs through all the formative experiences and major events in Mr Miller's life. He gives plot summaries of most of the plays, carefully noting any links to the author's own experiences. Mr Miller declared that “a drama must represent a well-defined expression of profound social needs”, and Mr Gottfried is duly attentive to Mr Miller's socialism both on and off the stage. Mr Gottfried also devotes a good deal of attention to Mr Miller's difficult relationship with Elia Kazan, who brilliantly directed several of his plays, including “Death of a Salesman”.

On the whole, though, Mr Gottfried's analysis is not very enlightening. Some who saw a photograph of Mr Miller and his supernaturally curvaceous movie-star wife will have wondered what they saw in one another (or at least what Marilyn saw in him). On this score Mr Gottfried is as clueless as the next guy: readers are referred to a short story of Mr Miller's called “Please Don't Kill Anything”. And with the exception of a good chapter on “Death of a Salesman”, Mr Gottfried's readings of the plays are equally unhelpful. Speaking of the genesis of “The Crucible”, he is barely even coherent: “Although the analogy with contemporary political witch-hunts was Miller's original motivation, and while he had conceived a through line that would transcend transient relevance to provide a more timeless theme for the spine of his play, he still needed a human element and a dramatic story.”

AP

King Arthur

Mr Gottfried has some harsh words to say about Mr Miller's 1987 autobiography, “Timebends”, rightly pointing out that it is oddly structured, smug and economical with the truth. Yet it gives a far richer sense of what makes Mr Miller tick than anything in Mr Gottfried's workmanlike life.

If one measure of the success of a literary biography is that it sends the reader back to the subject's work, then Mr Gottfried has served Mr Miller well. But as a critical assessment of a play-wright's achievement, his biography is disappointingly slight.

Arthur Miller: His Life and Work.
By Martin Gottfried.
Da Capo Press; 496 pages; $30. Faber and Faber; £25

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Photography in China

Profiles in courage

Oct 30th 2003
From The Economist print edition

SOME people's bravery seems little short of lunacy. Employed as a photographer on the *Heilongjiang Daily*, Li Zhensheng swiftly learned all about revolutionary discipline, even before the cultural revolution was launched in May 1966. He was paraded in front of his workmates, had his diary and love-letters seized and was forced to write a lengthy self-criticism of his “bourgeois thoughts”—all because he had sneaked off for a meal and a couple of beers with four friends when he was supposed to be living the life of a peasant.

So Mr Li was fully aware of the risks when he started to do something remarkable. Instead of simply churning out propaganda photographs of smiling peasants and passionately devoted crowds brandishing Chairman Mao's little red book, he started—unconsciously at first, he says, since he was initially a true believer in the cultural revolution's aims—to choose subjects and sometimes just angles and compositions that showed “it was all a bit crazy to me.” Of course, such disturbing pictures could not be published. So Mr Li hid them under his floorboards—30,000 images in all by the time the cultural revolution had spent itself a decade later. Now, a selection of 300 of them has been published.

Red-Color News Soldier: A Chinese Photographer's Odyssey Through the Cultural Revolution
By Li Zhensheng

Phaidon; 316 pages; $39.95 and £24.95

Buy it at
Amazon.com
Amazon.co.uk

“Anyone can be a witness, but not everyone has the chance to be a recorder”, Mr Li now explains. “When I think of those who disappeared for no reason at all, out there in the countryside, I know I have to do something. I have to tell the world, so that such an absurd and unbelievable disaster will never happen again.” His photographs do indeed record unbelievable things. There have been other photographs from the cultural revolution, mostly taken by enthusiastic red guards, but the value of this book is that it shows what went on far away from Beijing in the cities and villages of a gritty north-eastern province, and that they are professionally done. It is all here: the “struggle sessions” in which unfortunate “rich peasants” (whose ragged clothes give the lie to the charge) are harangued by thousands and those accused of bourgeois or counter-revolutionary leanings are paraded with giant dunces' caps and heavy painted signs listing their misdeeds; the looting of monasteries and the pitiful executions in remote snowy fields.

Shooting for the record

It is 27 years since Mao died and the cultural revolution ended, and China has changed a great deal. But this book still cannot be published there; it is even probable that, were he not an American resident (though still a Chinese citizen with a home in Beijing), Mr Li would face reprisals for publishing it at all. Still, he thinks it will be available there one day. “I'm a patriot, I think China will get better and better, politically, not just economically. It's like Deng Xiaoping said, we cross the river by stepping on stone after stone.”

Red-Color News Soldier: A Chinese Photographer's Odyssey Through the Cultural Revolution.
By Li Zhensheng.
Phaidon; 316 pages; $39.95 and £24.95

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John Fowles

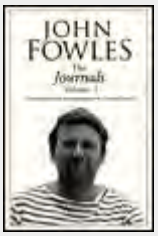
A writer's agonies

Oct 30th 2003
From The Economist print edition

WHEN John Fowles delivered the manuscript of his novel “The Magus” to his publisher Tom Maschler he was not at all sure how it would be received. He observed gloomily that Mr Maschler had “some strange drive in him” that “forces him to humiliate, to depress the writers he comes into contact with.” For a while, Mr Fowles fretted. But what did it really matter what others thought?

“Being a writer is really writing what you think fit, not what anyone else feels fit.” “The Magus” was worth a dozen “quick and smooth” books that were only “good for the season”. He felt “full of bile, spleen, melancholia”. Finally a telegram arrived. (This was in 1965, when urgent messages were sent in small yellow envelopes.) Mr Maschler said that he was “greatly entertained” and “very, very impressed” by the book. Was Mr Fowles grateful? Relieved, anyway. At least it meant that the book that had taken Mr Fowles 15 years to write was going to be published. He now felt exhausted “and wished to God that it was in print, behind me.”

The Journals: Volume 1
Edited by John Fowles.
Edited by Charles Drazin



Jonathan Cape; 668 pages; £30

Buy it at
Amazon.co.uk

Writers will feel at one with Mr Fowles's agonies, and wouldn't-it-be-nice-to-be-a-writer hopefuls will be warned that writing is, in some ways, no different from other means of earning a crust; not really all that independent at all, but replete with bosses you may or may not get on with.

“The Magus” earned a lot of crusts. It is likely to be the most enduring of Mr Fowles's seven novels, more so even than “The Collector” (1963) or “The French Lieutenant's Woman” (1969), fine though that is. With its plot of continual surprises and the creation of an extraordinary procession of characters, he produced a story that even Charles Dickens, a Fowles hero, would have admired.

It may be puzzling that the novels have more of a following in America than in Britain. As soon as they saw the manuscript the Americans were offering huge amounts of money for it. But its success there is perhaps not puzzling to Mr Fowles. “The Magus” is set in Greece, a place of sunshine where, he writes in his diary, he felt “a mental exuberance and keenness of perception”. And New York has “sunlight, the windowed cliffs floating in the blue sky...New York is cool, zesty, young.” But the British “live out of the sun, in the universal suburbia of modern England.” This is the first instalment of Mr Fowles's journals. As in his novels, almost every sentence has life. Bring on volume two.

The Journals: Volume 1.
By John Fowles. Edited by Charles Drazin.
Jonathan Cape; 668 pages; £30

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Madame Chiang Kai-shek

Oct 30th 2003
From The Economist print edition

AP

Madame Chiang Kai-shek, a power in China, died on October 23rd, aged 105

THE SCENE is Cairo, November 1943, where Winston Churchill, Franklin Roosevelt and China's Chiang Kai-shek are discussing how next to conduct the war against Germany and Japan. They break off to sit for an official photograph. As the photographer focuses his apparatus a woman joins the group. The men acknowledge her courteously. It would be unthinkable to ask her to stand aside.

Soong Meiling, better known as Madame Chiang Kai-shek, was much more than the wife of the Chinese leader. She had become, in the popular western view, the symbol of Chinese resistance: brave, articulate and, to top it all, elegant. Newspapers in the United States called her the most powerful woman in the world: a meaningless term perhaps, but it was handy to have someone as personable as Madame (never Mrs) Chiang to project the idea of America's heroic ally China, a country as inscrutable then as it often seems now to outsiders. She spoke English with a slight American accent and was a Christian. She was an oriental a westerner could relate to. She smiled away stories that China was by far the weakest of the so-called Big Four allies (the fourth being Russia, which for its own reasons had not come to Cairo). To call China a great power was “an absolute farce”, Churchill observed. He had hoped that Chiang Kai-shek would spend his time in Cairo looking at the Pyramids. Madame Chiang, though, reached his romantic heart. She was “remarkable and charming”. An unromantic aide of Churchill said simply that she mixed “sex and politics”.

Being remarkable, charming and sexy were formidable weapons. *Time* magazine put her on its cover. She addressed the American Congress, the second woman and the first Chinese to do so. Her speech about the importance of China in the war encouraged the Americans to send ever more arms and money to Chiang Kai-shek's army. Most of it was wasted. China under the Nationalists was a fractured nation that was going to be unified only by the communists. Much of the American money was pocketed by the Chiang family. Madame Chiang was later to blame the “loss” of China not on the inept and corrupt Nationalist regime but on the American government of the time, a tale that many Americans continue to believe.

Three sisters

She came of a family that had a determination to succeed. Her father, the son of a peasant, emigrated to America, made some money and returned to China where he earned a fortune printing Bibles. There were three Soong sisters, Ailing, Qingling and Meiling, each of whom had a remarkable career. Ailing

married a financier and politician who became prime minister of Nationalist China. Qingling married Sun Yat-sen, the architect of the 1911 Chinese revolution, which introduced the country to modern times. She later sided with the communists, who gave her an honorary position in government. Meiling, the youngest, had an American education and gained a degree in English literature. Her marriage in 1927 was one of convenience for both the wealthy Soong family and for Chiang Kai-shek, a clerk who had risen to head the Nationalists and called himself “generalissimo”. There were no children, perhaps because, as Meiling was reported to have said, the couple never had sex.

Theirs was, though, a partnership remarkable for the time. With her English and knowledge of western ways, she became her husband's chief link with America and Europe. When Japan made war on China in the 1930s she placed numerous articles in western newspapers describing Japanese cruelties, and wrote two books chastising the West for standing by while her country was being overrun. Any western journalist visiting China would seek an interview with Madame Chiang.

She pushed the idea of a mercenary force of pilots, mostly American, called the Flying Tigers, much featured in newsreels. When Japan attacked the United States in 1941, she was already known as the heroine who for years had been fighting the enemy. In 1943 she made a triumphal tour of the United States, culminating with her address to Congress and a stay at the White House, where she provided her own silk sheets. For years she was on an American list of the most admired women. Erroneously or not, it was widely believed that she was the real boss of China.

The second world war ended in 1945, but in China civil war crashed on. In 1949 Mao Zedong's communist forces prevailed, introducing China to years of tyranny and misgovernment from which it is only now recovering. Chiang's Nationalists fled to Taiwan, 100 miles off the mainland, creating a state that in all but name is independent and which over the past ten years has evolved into a democracy.

Chiang died in 1975, aged 87, but his wife's influence in the West persisted, especially in America. She remained the sweetheart of the China lobby, which remains ready to remind the American government of the need to protect Taiwan whenever China threatens to invade the island. In 1988, at the age of 90, Madame Chiang said it was time to retire. She lived for the rest of her life in America, on an estate she had bought on Long Island. She said that although her face was oriental she was, at heart, a westerner.

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Overview

Oct 30th 2003
From The Economist print edition

America's **Federal Reserve** left interest rates unchanged at 1.0%. The Fed said that the risks to economic growth for the next few quarters were roughly balanced, but that inflation was more likely to fall than rise. The Fed reaffirmed that low interest rates could be maintained "for a considerable period".

American **consumer confidence**, as measured by the Conference Board, rose by more than expected in October, reversing nearly all of its decline in September. Durable goods orders rose by 0.8% in September, suggesting that business investment is on the mend.

Industrial production in **Japan** rose by a seasonally adjusted 3% in September, much faster than analysts had expected. In the year to September industrial production rose by 3.4%.

Europe's economies showed signs of recovery. **Germany's** IFO Business Climate Index rose to 94.2 in October, its highest level since February 2001 and the sixth consecutive month of increase. Both the assessment of current conditions and the business outlook improved. Business confidence also improved in **Belgium** and **the Netherlands**, but fell in **Italy**.

Britain's GDP grew by an annualised 2.3% in the third quarter and by 1.9% in the year to the third quarter. Strong retail sales figures for September fuelled expectations that the Bank of England would raise short-term interest rates soon.

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Output, demand and jobs

Oct 30th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.0	Q2	+ 0.5	+ 2.8	+ 3.6	+ 1.3	Q2	+ 3.6	Q2	5.8	Sep	6.2
Austria	+ 0.7	Q2	+ 1.1	+ 0.6	+ 1.7	+ 5.4	Feb	– 0.3	Jul	4.5	Aug	4.3
Belgium	+ 0.8	Q2	– 0.4	+ 0.8	+ 1.8	– 4.0	Aug	+ 0.9	Jul	13.2	Sep†	12.0
Britain	+ 1.9	Q3	+ 2.3	+ 1.7	+ 2.5	– 0.8	Aug	+ 3.9	Sep	5.0	Aug††	5.2
Canada	+ 1.6	Q2	– 0.3	+ 2.0	+ 3.0	+ 1.5	Jul	+ 3.6	Jul	8.0	Sep	7.7
Denmark	– 1.0	Q2	– 2.2	+ 1.0	+ 2.1	+ 1.0	Aug	+ 3.2	Aug	6.3	Sep	5.3
France	– 0.3	Q2	– 1.3	+ 0.4	+ 1.8	– 1.8	Aug	– 2.2	May	9.6	Aug	9.1
Germany	– 0.2	Q2	– 0.2	nil	+ 1.5	– 3.2	Aug	– 2.4	Aug‡	10.5	Sep§	9.8
Italy	+ 0.3	Q2	– 0.3	+ 0.4	+ 1.6	+ 1.7	Aug	– 0.4	Jul	8.7	Jul	9.0
Japan	+ 3.0	Q2	+ 3.9	+ 2.5	+ 1.9	+ 3.4	Sep	– 2.6	Jul	5.1	Aug	5.5
Netherlands	– 1.2	Q2	– 2.4	– 0.5	+ 1.3	– 0.9	Aug	– 3.6	Jul	5.4	Sep**	4.2
Spain	+ 2.3	Q2	+ 2.7	+ 2.1	+ 2.8	– 1.7	Aug	+ 3.3	Jul	11.4	Aug	11.4
Sweden	+ 1.1	Q2	+ 1.1	+ 1.5	+ 2.3	+ 3.0	Aug	+ 3.8	Sep	4.8	Sep†	4.2
Switzerland	– 1.0	Q2	– 1.2	– 0.4	+ 1.3	– 2.8	Q2	– 3.2	Aug	3.7	Sep†	2.6
United States	+ 2.5	Q2	+ 3.3	+ 2.6	+ 3.7	– 0.6	Sep	+ 6.5	Aug	6.1	Sep	5.7
Euro area	+ 0.2	Q2	– 0.3	+ 0.5	+ 1.8	+ 0.1	Aug	nil	Jul	8.8	Aug	8.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 0.8	Q2	+ 2.4	na	na	+ 1.9	Aug	+ 5.6	Aug	8.0	Sep†	8.1
Greece	+ 4.5	Q2	+ 0.4	na	na	+ 2.1	Jul	na		na		na
Iceland	+ 2.7	Q2	na	na	na	– 0.3	2002	na		2.7	Sep†	2.2
Ireland	+ 0.5	Q1	na	na	na	+13.7	Aug	+ 0.4	Aug	4.4	Sep	4.3
Luxembourg	+ 1.1	2002	na	na	na	+ 5.0	Jul	– 0.1	May	3.6	Aug	2.9
New Zealand	+ 2.0	Q2	– 0.5	na	na	+ 2.5	Q2	+ 5.1	Q2	4.7	Q2	5.2
Norway	– 2.0	Q2	– 0.6	na	na	– 4.7	Aug	+ 5.3	Sep	4.7	Q2	4.0
Portugal	– 2.3	Q2	+ 0.5	na	na	+ 2.1	Aug	– 1.4	Aug	6.2	Q2†	4.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Jun-Aug; claimant count rate 3.1% in Sep . §EU harmonised rate 9.4% in Sep. **Jul-Sep.

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Prices and wages

Oct 30th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.6	Q3	+ 3.2	+ 2.8	+ 2.4	– 0.1	Q3	– 0.2	+ 5.5	Q2	+ 3.7
Austria	+ 1.4	Sep	+ 1.6	+ 1.3	+ 1.2	+ 1.3	Sep	– 0.1	+ 2.3	Aug	+ 2.3
Belgium	+ 1.8	Sep	+ 1.3	+ 1.4	+ 1.3	– 1.9	Sep	+ 0.8	+ 1.9	Q3	+ 2.1
Britain	+ 2.8	Sep	+ 1.7	+ 2.7	+ 2.3	+ 1.5	Sep	+ 0.2	+ 3.4	Aug	+ 3.8
Canada	+ 2.2	Sep	+ 2.3	+ 2.7	+ 1.9	– 2.0	Aug	+ 0.6	+ 4.6	Jul	+ 2.9
Denmark	+ 1.9	Sep	+ 2.4	+ 2.2	+ 1.8	– 0.5	Sep	– 0.3	+ 3.8	Q2	+ 3.7
France	+ 2.2	Sep	+ 1.8	+ 2.0	+ 1.4	+ 0.2	Sep	+ 0.3	+ 2.7	Q2	+ 3.9
Germany	+ 1.1	Oct	+ 1.3	+ 1.0	+ 0.7	+ 0.6	Sep	+ 0.3	+ 2.2	Aug	+ 2.9
Italy	+ 2.6	Oct	+ 2.7	+ 2.7	+ 2.0	+ 1.0	Sep	+ 0.9	+ 2.7	Sep	+ 2.1
Japan	– 0.3	Aug	– 0.9	– 0.3	– 0.2	– 0.5	Sep	– 2.0	– 0.2	Aug	– 2.7
Netherlands	+ 2.0	Sep	+ 3.1	+ 2.3	+ 1.7	+ 2.6	Aug	+ 0.4	+ 2.6	Sep	+ 3.4
Spain	+ 2.9	Sep	+ 3.5	+ 3.0	+ 2.5	+ 0.8	Sep	+ 1.0	+ 4.2	Q2	+ 4.0
Sweden	+ 1.7	Sep	+ 1.9	+ 2.2	+ 1.7	– 1.5	Sep	– 0.7	+ 3.2	Jul	+ 2.7
Switzerland	+ 0.5	Sep	+ 0.5	+ 0.6	+ 0.6	– 0.4	Sep	– 1.2	+ 1.8	2002	+ 2.5
United States	+ 2.3	Sep	+ 1.5	+ 2.2	+ 1.4	+ 3.5	Sep	– 1.8	+ 2.7	Sep	+ 2.9
Euro area	+ 2.1	Sep	+ 2.1	+ 2.0	+ 1.5	+ 1.4	Aug	– 0.1	+ 2.9	Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.7	Sep	+ 1.0	na	na	– 0.8	Sep	– 0.8	+ 4.3	Q2	+ 3.9
Greece	+ 3.3	Aug	+ 3.5	na	na	+ 2.2	Aug	+ 2.1	na		na
Iceland	+ 2.2	Oct	+ 2.9	na	na	+ 3.7	Oct	+ 6.2	+ 5.6	Sep	+ 5.8
Ireland	+ 2.9	Sep	+ 4.5	na	na	– 7.8	Sep	– 1.7	+ 8.7	Q2	+ 3.5
Luxembourg	+ 2.1	Sep	+ 2.0	na	na	+ 0.3	Aug	– 0.2	nil	Jun	– 0.6
New Zealand	+ 1.5	Q3	+ 2.6	na	na	– 2.0	Q2	+ 1.5	+ 2.3	Q2	+ 2.1
Norway	+ 2.1	Sep	+ 1.4	na	na	– 0.5	Sep	– 5.0	+ 5.4	Q2	+ 4.9
Portugal	+ 3.1	Sep	+ 3.7	na	na	– 0.3	Sep	+ 0.1	– 1.7	Aug	– 0.6

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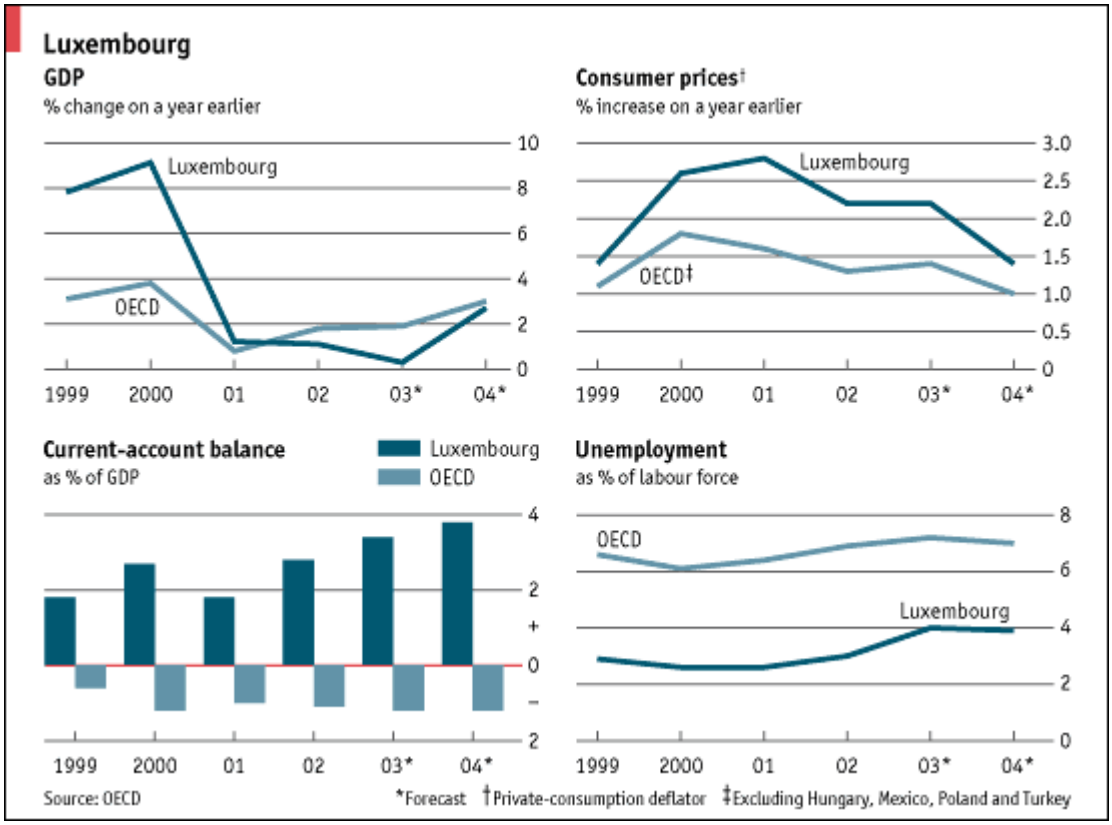
Luxembourg

Oct 30th 2003
From The Economist print edition



Luxembourg's economy has fallen a long way since the boom years of 1999 and 2000, when economic growth averaged 8.8%. Thanks to its reliance on banking and finance, which account for a third of GDP, Luxembourg's economy grew much faster than most others during the global economic boom. But the slowdown that followed has hit especially hard. The OECD now expects the country's economy to grow by just 0.3% in 2003 and by 2.7% in 2004. The slowdown will be worsened by Luxembourg's generous state pension benefits and early retirements. Only a quarter of Luxembourgeois aged between 55 and 64 are in work, one of the lowest rates in rich countries. Despite the slowdown, Luxembourg will continue to rely on foreign workers, and the OECD urges reforms of education and transportation, as well as an increase in the housing supply, to make their integration easier.

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Money and interest rates

Oct 30th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Oct 29th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 7.4	+12.2	Aug	4.99	4.86	5.28	5.63	5.64	6.35
Britain	+ 7.7	+ 7.4	Sep	3.88	3.91	4.63	5.03	4.59	5.79
Canada	+ 8.5	+ 5.5	Sep	2.64	2.75	3.10	4.83	5.18	6.34
Denmark	+ 5.1	+ 6.2	Sep	2.20	3.47	2.91	4.44	4.71	5.58
Japan	+ 5.8	+ 1.8	Sep	0.02	0.02	0.12	1.42	1.03	1.48
Sweden	+ 3.2	+ 4.9	Sep	2.72	4.09	3.32	4.87	5.06	3.95
Switzerland	+22.3	+ 7.8	Sep	0.24	0.74	0.29	2.70	2.60	2.72
United States	+ 8.1	+ 7.2	Sep	1.08	1.62	1.67	4.27	3.96	5.88
Euro area†	+11.8	+ 8.2	Aug	2.15	3.25	2.69	4.26	4.50	4.24

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.17%, Japan No. 254 1.43%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Oct 30th 2003
From The Economist print edition

1995=100

	Oct 21st	Oct 28th*	% change on one month	% change on one year
Dollar index				
All items	84.6	86.0	+ 5.3	+13.9
Food	83.8	85.6	+ 4.3	+ 6.9
Industrials				
All	85.7	86.5	+ 6.6	+25.0
Nfa†	88.9	90.7	+ 5.2	+27.9
Metals	83.0	82.9	+ 8.0	+22.5
Sterling index				
All items	79.6	80.0	+ 3.2	+ 4.8
Euro index				
All items	95.2	96.8	+ 4.9	- 3.9
Yen index				
All items	98.7	99.1	+ 2.1	+ 0.8
Gold				
$ per oz	378.25	383.85	- 0.4	+21.0
West Texas Intermediate				
$ per barrel	30.01	29.52	+ 1.3	+10.5

* Provisional. † Non-food agriculturals.

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Stockmarkets

Oct 30th 2003
From The Economist print edition

Market indices

	Oct 29th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,274.7	3,310.6	2,673.3	− 0.9	− 4.8	+10.1	+37.7
Austria (ATX)	1,407.4	1,410.2	1,120.2	+ 0.9	−19.0	+22.4	+36.3
Belgium (Bel 20)	2,117.3	2,150.7	1,426.6	− 0.4	−42.5	+ 4.6	+16.5
Britain (FTSE 100)	4,265.7	4,368.8	3,287.0	− 0.5	−38.4	+ 8.3	+14.4
Canada (Toronto Composite)	7,730.5	7,792.8	6,228.6	+ 0.2	−32.1	+16.9	+41.1
Denmark (KBX)	219.7	219.7	145.0	+ 2.4	−27.2	+32.1	+47.1
France (SBF 250)	2,300.5	2,318.0	1,630.1	+ 1.9	−47.6	+12.0	+24.8
(CAC 40)	3,367.0	3,422.8	2,403.0	+ 1.9	−51.4	+ 9.9	+22.4
Germany (DAX)	3,612.5	3,668.7	2,203.0	+ 3.5	−55.2	+24.9	+39.1
Italy (BCI)	1,204.3	1,218.8	959.4	+ 0.3	−44.8	+10.3	+22.9
Japan (Nikkei 225)	10,739.2	11,161.7	7,607.9	− 1.4	−72.4	+25.2	+37.5
(Topix)	1,057.1	1,105.6	770.6	− 1.5	−63.4	+25.4	+37.7
Netherlands (AEX)	325.5	342.2	218.4	+ 1.1	−53.6	+ 0.8	+12.4
Spain (Madrid SE)	745.5	768.6	576.8	+ 1.5	−35.0	+17.6	+31.0
Sweden (Affarsvarlden Gen)	182.6	182.6	127.8	+ 4.1	−54.4	+25.7	+42.2
Switzerland (Swiss Market)	5,177.5	5,422.6	3,675.4	nil	−38.5	+11.8	+16.5
United States (DJIA)	9,774.5	9,813.0	7,524.1	+ 1.8	−16.6	+17.2	+17.2
(S&P 500)	1,048.1	1,050.1	800.7	+ 1.7	−31.4	+19.1	+19.1
(NASDAQ Comp)	1,936.6	1,950.1	1,271.5	+ 2.0	−61.6	+45.0	+45.0
Europe (FTSE Eurotop 300)*	915.7	926.5	682.7	+ 1.5	−46.3	+ 6.9	+19.0
Euro area (FTSE Ebloc 100)*	779.7	800.8	565.7	+ 1.8	−49.7	+ 8.5	+20.9
World (MSCI)†	963.8	967.1	710.8	+ 1.1	−33.5	+21.7	+21.7
World bond market (Citigroup)‡	575.7	583.9	518.6	− 0.1	− 1.4	+ 9.6	+ 9.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Oct 30th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2003	Current account The Economist poll % of GDP, forecast 2004	Exchange rate trade-weighted† 1990=100 Oct 29th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Oct 29th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2003‡
Australia	− 13.5 Sep	− 24.4 Q2	− 5.6	− 5.0	84.7	74.1	1.42	1.81	2.41	1.66	1.31	0.2
Austria	− 0.4 Jul	+ 0.9 Aug	+ 0.2	nil	103.1§	100.8	0.86	1.02	1.45	–	0.79	-1.3
Belgium	+ 19.9 Aug	+ 11.2 Jun	+ 4.6	+ 4.6	103.3§	100.0	0.86	1.02	1.45	–	0.79	nil
Britain	− 72.2 Aug	− 28.6 Q2	− 1.1	− 1.5	101.2	106.4	0.59	0.64	–	0.69	0.54	-1.9
Canada	+ 40.7 Aug	+ 14.7 Q2	+ 1.7	+ 1.6	88.6	75.9	1.31	1.57	2.23	1.53	1.21	1.1
Denmark	+ 9.4 Aug	+ 5.9 Aug	+ 2.8	+ 2.6	105.9	102.9	6.36	7.56	10.8	7.43	5.88	1.6
France	+ 5.5 Aug	+ 21.5 Aug	+ 1.5	+ 1.5	106.8§	102.9	0.86	1.02	1.45	–	0.79	-3.6
Germany	+136.4 Aug	+ 53.0 Aug	+ 2.0	+ 1.9	104.9§	99.8	0.86	1.02	1.45	–	0.79	-3.7
Italy	+ 2.5 Aug	− 18.8 Aug	− 0.8	− 0.6	76.1§	73.3	0.86	1.02	1.45	–	0.79	-2.4
Japan	+ 96.2 Aug	+119.0 Aug	+ 2.8	+ 2.9	138.9	131.7	108	123	184	126	–	-7.7
Netherlands	+ 30.4 Aug	+ 15.1 Q2	+ 2.2	+ 2.7	102.8§	99.0	0.86	1.02	1.45	–	0.79	-1.6
Spain	− 48.0 Jul	− 22.4 Jul	− 2.4	− 2.2	77.3§	75.0	0.86	1.02	1.45	–	0.79	-0.4
Sweden	+ 17.1 Sep	+ 11.1 Q2	+ 4.1	+ 3.9	81.8	78.1	7.70	9.22	13.1	9.01	7.13	0.7
Switzerland	+ 6.0 Sep	+ 35.0 Q2	+10.6	+10.8	111.0	114.5	1.33	1.49	2.26	1.55	1.23	na
United States	−537.8 Aug	−528.7 Q2	− 5.3	− 5.5	98.1	114.3	–	–	1.70	1.17	0.93	-4.6
Euro area	+ 82.9 Aug	+ 34.7 Aug	+ 0.4	+ 0.5	89.2	81.8	0.86	1.02	1.45	–	0.79	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.5 Aug	+ 9.6 Aug	na	na	82.2§	78.9	0.85	1.02	1.45	–	0.79	3.1
Greece	− 24.3 Aug	− 10.6 Aug	na	na	59.7§	58.0	0.85	1.02	1.45	–	0.79	-1.0
Iceland	− 0.1 Aug	− 0.2 Q2	na	na	98.6**	91.8	76.6	88.0	130	89.5	70.9	nil
Ireland	+ 37.3 Jul	− 2.1 Q2	na	na	95.2§	89.3	0.85	1.02	1.45	–	0.79	-0.8
Luxembourg	− 3.3 Aug	+ 1.5 Q2	na	na	103.3§	100.0	0.85	1.02	1.45	–	0.79	0.2
New Zealand	− 1.7 Sep	− 2.9 Q2	na	na	99.1	88.3	1.68	2.08	2.86	1.96	1.55	0.8
Norway	+ 27.0 Sep	+ 26.7 Jul	na	na	97.1	105.2	7.10	7.50	12.1	8.30	6.57	11.3
Portugal	− 12.5 Jul	− 7.7 Jul	na	na	93.8**	91.0	0.85	1.02	1.45	–	0.79	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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The Economist metals index

Oct 30th 2003
From The Economist print edition

Our dollar-based metals index is at a three-year high, fuelled by strong Chinese demand and a revival in the American economy. Nickel prices have risen by 45% since April to a 13-year high.

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Overview

Oct 30th 2003
From The Economist print edition

Boosted by a surge in semiconductor exports, **South Korea's** industrial production rose 6.6% in the year to September. Its current-account surplus rose to $2.35 billion in September, the biggest monthly surplus for more than four years.

Consumer prices in **Hong Kong** fell 3.2% in the year to September, the 59th consecutive month of deflation. The trade deficit widened to $6.9 billion in the year to September.

Industrial production in **Chile** rose 5.8% in the year to September, up from 2.1% in the year to August.

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The Economist poll of forecasters

Oct 30th 2003
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Every three months, *The Economist* polls a group of forecasters and averages their predictions for economic growth and current-account balances in 25 emerging economies. Relative to our last poll conducted in July, the group of forecasters as a whole has become more optimistic about both this year and next. Its predictions of GDP growth rose for 13 countries for both 2003 and 2004. Next year, compared with our July poll, the group sees the biggest improvement coming from Turkey and Hong Kong, with growth rates of 4.8% and 5.1%, respectively. Meanwhile, the forecasters reduced the growth rates they expect in Thailand and Egypt in 2004 by 0.6 percentage points.

October

	Real GDP % change		Current account % of GDP	
	2003	2004	2003	2004
China	8.2	7.7	1.4	0.9
Hong Kong	2.1	5.1	12.1	13.6
India	6.1	6.3	0.1	nil
Indonesia	3.7	4.3	3.6	3.1
Malaysia	4.4	5.0	8.6	8.1
Philippines	3.7	4.1	2.7	2.7
Singapore	0.8	4.9	22.6	21.2
South Korea	2.5	4.8	0.8	0.6
Taiwan	3.1	4.6	8.1	7.2
Thailand	5.5	4.5	5.1	4.0
Argentina	5.8	4.0	6.8	5.3
Brazil	0.7	3.2	−0.1	−0.8
Chile	3.2	4.2	−0.8	−0.8
Colombia	2.6	3.2	−2.3	−2.5
Mexico	1.6	3.7	−2.3	−2.7
Peru	3.8	3.9	−2.0	−1.9
Venezuela	−11.9	6.3	9.5	7.6
Egypt	2.3	3.1	−0.7	−0.9
Israel	0.9	2.2	−1.0	−1.0
South Africa	2.2	3.3	−1.1	−1.5
Turkey	3.6	4.8	−3.2	−2.4
Czech Republic	2.3	3.2	−6.1	−5.5
Hungary	2.6	2.9	−6.1	−5.3
Poland	3.4	4.2	−2.5	−2.8
Russia	6.3	5.1	8.4	4.5

Sources: ABN Amro; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Financial Markets; J.P.Morgan Chase; Merrill Lynch; Citigroup; UBS Warburg.

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Economy

Oct 30th 2003
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+16.3	Sep	+ 1.1	Sep	+19.6	Sep	+35.4	2002	383.9	Sep
Hong Kong	– 0.5	Q2	–12.5	Q2	– 3.2	Sep	– 6.9	Sep	+18.4	Q2	112.1	Sep
India	+ 5.7	Q2	+ 5.2	Aug	+ 3.1	Aug	–12.6	Aug	+ 2.8	Q2	85.6	Sep
Indonesia	+ 4.1	Q3	+ 4.7	Jul	+ 6.2	Sep	+26.1	Aug	+ 6.7	Q1	32.8	Sep
Malaysia	+ 4.4	Q2	+ 6.7	Aug	+ 1.1	Sep	+17.5	Aug	+10.1	Q2	37.7	Sep
Philippines	+ 3.2	Q2	+ 7.0	Aug	+ 2.9	Sep	– 1.6	Aug	+ 2.8	Jul	12.8	Sep
Singapore	+ 1.0	Q3	+ 6.3	Sep	+ 0.7	Sep	+15.0	Sep	+23.8	Q2	91.1	Sep
South Korea	+ 1.9	Q2	+ 6.6	Sep	+ 3.3	Sep	+11.6	Sep	+ 6.9	Sep	141.5	Sep
Taiwan	– 0.4	Q2	+ 7.5	Sep	– 0.2	Sep	+18.1	Sep	+26.9	Q2	190.6	Sep
Thailand	+ 5.8	Q2	+ 5.5	Aug	+ 1.7	Sep	+ 4.8	Aug	+ 8.7	Aug	37.4	Aug
Argentina	+ 7.6	Q2	+10.8	Sep	+ 3.5	Sep	+17.0	Aug	+10.2	Q2	13.4	Sep
Brazil	– 1.3	Q2	– 1.8	Aug	+15.1	Sep	+23.1	Sep	+ 3.6	Sep	47.8	Aug
Chile	+ 2.7	Q2	+ 5.8	Sep	+ 2.2	Sep	+ 2.8	Sep	– 0.8	Q2	15.3	Aug
Colombia	+ 2.0	Q2	– 1.2	Aug	+ 7.1	Sep	– 0.3	Jun	– 1.7	Q2	10.7	Sep
Mexico	+ 0.2	Q2	– 2.9	Aug	+ 4.0	Sep	– 6.4	Sep	–11.5	Q2	51.5	Aug
Peru	+ 3.1	Aug	+ 1.4	Aug	+ 2.0	Sep	+ 0.4	Aug	– 1.2	Q2	9.8	Sep
Venezuela	– 9.4	Q2	–11.5	Jul	+26.6	Sep	+14.6	Q2	+ 9.3	Q2	12.8	Jun
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 4.4	Jul	– 7.1	Mar	+ 1.9	Q2	13.6	Jun
Israel	– 0.3	Q2	– 0.9	Aug	– 1.9	Sep	– 6.5	Sep	nil	Q2	25.2	Sep
South Africa	+ 1.8	Q2	– 4.9	Aug	+ 3.7	Sep	+ 3.1	Aug	– 0.9	Q2	6.5	Aug
Turkey	+ 3.9	Q2	+10.3	Aug	+23.0	Sep	–19.3	Aug	– 4.7	Aug	33.9	Sep
Czech Republic	+ 2.1	Q2	+ 2.7	Aug	nil	Sep	– 2.3	Sep	– 5.0	Q2	25.6	Sep
Hungary	+ 2.4	Q2	+ 9.4	Aug	+ 4.7	Sep	– 3.8	Aug	– 5.0	Aug	12.8	Sep
Poland	+ 3.8	Q2	+11.1	Sep	+ 0.9	Sep	–10.4	Aug	– 5.5	Aug	31.6	Sep
Russia	+ 7.2	Q2	+ 8.0	Sep	+13.2	Sep	+55.7	Aug	+38.0	Q3	62.4	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 3.5	Q2	+ 9.7	Sep	+ 1.4	Sep	– 1.8	Aug	– 1.2	Q2	1.2	Jul
Latvia	+ 6.2	Q2	– 0.6	Aug	+ 3.1	Sep	– 1.8	Aug	– 0.9	Aug	1.3	Jul
Lithuania	+ 6.7	Q2	na		– 0.8	Sep	– 2.4	Aug	– 0.9	Q2	2.7	Jul
Slovakia	+ 3.8	Q2	+ 8.5	Aug	+ 9.5	Sep	– 1.4	Aug	+ 1.0	Jun	10.4	Jul
Slovenia	+ 2.1	Q2	+ 3.4	Sep	+ 4.8	Oct	– 0.5	Jul	+ 0.1	Aug	7.8	Jul
Pakistan	+ 5.1	2003†	+15.8	Nov	+ 2.2	Sep	– 1.1	Sep	+ 4.0	Q2†	9.8	Aug
Saudi Arabia	+ 1.0	2002	na		– 1.2	Jul	+41.8	2002	+11.7	2002	21.1	Jul

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Oct 30th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 29th		Dec 31st 2002	
	Oct 29th	year ago	Oct 29th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	14.1	na	1,425.2	−2.6	+ 0.4	+ 0.4
Hong Kong	7.76	7.80	13.2	0.42	12,130.5	−0.9	+ 30.1	+ 30.8
India	45.3	48.4	77.1	4.45	4,744.1	+0.1	+ 40.5	+ 48.6
Indonesia	8,530	9,227	14,509	8.83	624.6	−3.3	+ 47.0	+ 54.2
Malaysia	3.80	3.80	6.46	3.05	810.0	+0.6	+ 25.3	+ 25.3
Philippines	55.4	53.1	94.3	8.13	1,364.8	−1.3	+ 34.0	+ 29.1
Singapore	1.74	1.77	2.95	0.88	1,722.3	−2.8	+ 28.4	+ 28.3
South Korea	1,180	1,233	2,006	4.03	779.7	nil	+ 24.2	+ 24.9
Taiwan	33.9	34.8	57.7	1.05	6,095.9	+0.9	+ 36.9	+ 40.3
Thailand	39.9	43.4	67.9	1.32	624.1	+3.2	+ 75.1	+ 88.9
Argentina	2.85	3.56	4.85	5.00	943.0	+5.7	+ 79.6	+111.9
Brazil	2.85	3.73	4.84	18.85	17,944.8	−1.6	+ 59.3	+ 98.0
Chile	634	733	1,078	2.76	7,544.9	−1.7	+ 50.3	+ 70.7
Colombia	2,868	2,775	4,878	7.84	2,147.6	nil	+ 33.5	+ 33.5
Mexico	11.1	10.2	18.9	4.86	7,925.2	+0.1	+ 29.3	+ 21.5
Peru	3.48	3.61	5.91	2.70	2,116.0	+1.1	+ 52.0	+ 53.8
Venezuela	1,598	1,395	2,718	16.88	19,838.6	+3.3	+147.5	+114.8
Egypt	6.15	4.65	10.45	6.89	10,943.8	− 1.3	+103.7	+ 53.5
Israel	4.51	4.77	7.66	2.93	478.8	+4.1	+ 44.0	+ 51.8
South Africa	6.91	10.1	11.8	8.10	9,695.9	+0.9	+ 4.5	+ 29.8
Turkey	1,519,368	1,676,500	2,584,292	25.00	14,673.4	−4.1	+ 41.5	+ 54.6
Czech Republic	27.5	31.4	46.8	2.06	625.1	−1.0	+ 35.7	+ 48.5
Hungary	219	246	372	9.51	9,486.2	−3.3	+ 21.6	+ 25.1
Poland	3.98	4.05	6.77	5.55	20,450.0	+0.6	+ 42.3	+ 37.1
Russia	29.8	31.8	50.7	16.00	540.7‡	−9.1	+ 50.6	+ 40.6
EMF (MSCI)*	1.00	1.00	1.70	na	408.8	nil	+ 40.0	+ 40.0
EMBI+†	1.00	1.00	1.70	na	281.3	nil	+ 22.9	+ 22.9

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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